



Ministry of Finance

UNOFFICIAL TRANSLATION

STABILITY PROGRAMME FOR FINLAND

September 1999 update

1. Government economic policy premises

The Finnish economy has experienced a sustained period of rapid economic growth since 1994. At the same time, economic imbalances have been redressed or have abated, general government finances have strengthened and employment has improved quickly. As a result of the deep recession of the early 1990s, both unemployment and central government debt are still at high levels.

The primary objectives of Finland's economic policy in the latter years of the 1990s have been to foster growth by strengthening the economic fundamentals and to stabilise public finances. Overall, this policy has proven successful. The emphasis in future economic policy will be to focus more on structural issues that are instrumental in securing economic growth.

Owing to the policy aimed at economic stability and participation in EMU, inflation has remained slow. Moreover, increased competition due to accession to the Union, and low upward pressures on import prices, and the comprehensive wage agreements reached at the labour market have also strengthened price stability. Capacity utilisation rates have, however, gradually risen to high levels in some sectors of the economy, with the possibility of bottlenecks appearing. Consequently, the risk of overheating is increasing. To avert this risk, product and labour market reforms need to be continued and moderate wage developments should be safeguarded also in the future.

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The second government of Prime minister Paavo Lipponen, nominated in March 1999, consists of the same parties as the government during 1995-1999.

The government will base its work on the legacy of its predecessor. The primary economic policy goal of the new government is to raise employment, which in turn is achieved by

sustained economic growth. A series of reforms to product, capital and labour markets will be implemented, including changes to the tax and social benefit systems designed to boost employment and encourage independent initiative.

The sizeable central government debt, along with a heavy tax burden, is the most serious problem in public finances. With a view to preparing for both cyclical fluctuations and expenditure pressures caused by the ageing of the population, the government will reduce the central government debt-to-GDP ratio below 50 per cent during the election period ending in 2003. To this end, a structural surplus will be created in central government finances (the National Accounts definition) by means of tight fiscal policy. The Government announced in its programme that central government expenditure, including interest expenses, will be kept constant in real terms, at the 1999 Budget level or lower, over the whole term of office.

The Stability and Growth Pact, specifying the Treaty, establishes that Member States shall adhere to a medium-term objective of budgetary positions close to balance or in surplus. In line with the Government programme for central government finances, the Finnish government can comfortably fulfil the requirement on the general government budgetary position set out in the Stability and Growth Pact. Owing to the partly funded employment pension system, which is included in the public sector, the social security funds register a surplus of approximately 3 ½ per cent in relation to total output. Local government (mainly comprising of municipalities) finances are on the average in balance. The overall surplus in general government accounts is estimated at about 3 per cent of GDP this year.

Should the Finnish economy develop as projected in this Programme, the Government aims to maintain a general government surplus

ratio of at least about 4 per cent over the election period. Fulfilling the target requires that receipts from corporate taxes and excise duties should develop fairly positively, as currently envisaged.

The Broad Economic Policy Guidelines for 1999 recommend for Finland a further increase in general government surplus, notably in the central government accounts. The Guidelines advocate continued reductions in the expenditure-to-GDP ratio as a means of budgetary consolidation in order to lower taxes in a manner conducive to employment creation. The policy adopted in this Stability Programme is in line with the recommendations of the Guidelines.

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The current comprehensive incomes policy agreements expire at the end of January 2000. A new round of wage negotiations will be carried out during the autumn. All main labour market organisations are committed to the target of low inflation, and the government intends to reward a moderate collective wage agreement with tax cuts.

The government is committed in its programme to implementing a FIM 10-11 billion reduction in income tax and social security contributions (1½ per cent of GDP) over the election period. However, the tax cuts presuppose robust economic growth, moderate wage settlements and enhanced tax structures. The tax concessions will be partly compensated by higher capital and corporate tax rates and by tougher energy and environmental taxes. The cyclical phase of the economy will influence the timing of the tax reductions, and the aim is to ensure that the changes in all tax brackets will be equal so that the overall effect of the cuts is to encourage to take up even low-paying jobs.

Given the current conditions of strong economic growth, the risk of wage inflation has grown. Since the responsibility of fiscal policy in maintaining a balanced economic development increased with the advent of the single currency, the government has announced that decisions on tax cuts cannot be taken before the wage settlement for coming years is taken. Consequently, the targeted tax cuts are not included in the Budget Proposal for the year 2000. The

government will decide on taxation for the next few years during the course of the autumn, once the wage agreements have been settled. The calculations in this Programme are based on the technical assumption that tax reductions of FIM 11 billion will be carried out in three steps of equal size between the years 2001 and 2003.

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By its structural policy measures, the government pursues faster economic growth than presented in this Stability Programme. However, the public finance estimates presented in this Programme are based on cautious growth assumptions.

The projected surpluses suggest that the target of a structural surplus in central government finances stated in the Government programme is feasible. In accordance with the resolution issued by ECOFIN on 1 May 1998, any room for manoeuvre arising from better-than-expected economic developments will be used to consolidate general government finances.

Should budgetary developments prove weaker than estimated in this Programme, the fiscal policy targets can nonetheless be met on the condition that public expenditure conforms with the decisions already taken and with the set central government expenditure ceilings. Should the outcome in the central government deficit or debt prove weaker than projected in this Programme, Government will take the necessary consolidation measures.

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Council Regulation 1466/97 stipulates that all euro area Member States shall submit information necessary for the purpose of multilateral surveillance, as laid down in Article 99 (ex Article 103) of the Treaty, by annually drafting a Stability Programme. The content of the Programme at hand adheres to the said Regulation as well as the opinion adopted by the Monetary Committee on 16 September 1998. This Programme has been prepared in conjunction with the Budget Proposal for 2000, and as laid down in the Government Rules of Procedure, will be adopted by the Government plenary session. This Programme, like its predecessors, will be handed over to the Parliament for information.

This Programme is based on the Government programme adopted in April 1999, on the central government expenditure ceilings for 2000-2003 and on the Budget Proposal for 2000. The deficit and debt ratios presented in this Programme are based on ESA-79 definitions, which are still used in budgetary

surveillance at the EU level. Next year, budgetary monitoring will be based on ESA-95 concepts. It is currently estimated that no major changes will occur in the Finnish deficit and debt ratio figures as a result of this statistical reform.

2. General government consolidation measures

2.1 Central government expenditure guidelines for 2000-2003

The deep recession of the early 1990s caused a large deficit in public finances in Finland. In order to reduce the deficit, growth in central government expenditure has been arrested by means of successive, sizeable consolidation programmes from the year 1991. A significant share of the cuts in spending have involved central government transfers to local government, meaning that expenditure growth has also been reduced at the local level. Owing to these spending cuts average annual public expenditure grew at a rate of slightly over one per cent in real terms between the years 1994-1999, while total output increased by an average of 4 ½ per cent annually over the same period.

The Government is committed to a fiscal policy that restricts expenditure growth. The government announced in its programme that central government real expenditure is kept constant at the 1999 Budget level or even lower over its term of office. The expenditure ceilings for 2000-2003, drawn up by the government in May 1999, indicate that overall expenditure, measured in real terms, will increase slightly in 2000, only to return to the 1999 level in the following years. As interest payments decrease,

outlays excluding debt servicing could grow at an annual rate of roughly half per cent in real terms.

Expenditure ceilings, specified separately for each ministry, are binding for the ministries in their budget preparations. If economic developments evolve as forecast, the expenditure pressures for the following year can be estimated quite accurately. The Budget Proposal for the year 2000 broadly corresponds to the expenditure ceilings adopted in May. Since future spending is affected by numerous unforeseeable factors, fulfilling the medium-term fiscal policy targets demands constant readjustment of priorities between government projects and expenditures.

In drafting the Budget Proposal for 2000, the government made some changes in the legal premises for expenditure. The decision with the greatest positive impact on expenditure was one providing free pre-school education to 6-year-olds. Spending reductions were made mainly in items in which estimates have become more accurate. The budget total sum for next year is very close to the ceiling set in the spring.

2.2 Central government revenue

The government has not decided on income tax cuts by the time this programme was adopted, and they are not included in the budget proposal for the year 2000. The Government's programme includes raising the corporate and capital income tax rate as well as the tax at source on interest from the current 28 per cent to 29 per cent. This rise is estimated to yield FIM 0.8 billion (0.1 per cent of GDP) in tax receipts from capital and corporate taxes per annum. The changes in these tax rates will be decided upon in the context of other tax decisions. A technical assumption is made in the calculations of this Programme such that

income taxes will be reduced in three steps of equal size between 2001-2003 and that the increased capital and corporate tax rates become effective from the beginning of next year.

Other small changes in capital income taxation of minor fiscal consequence are also forthcoming (abolition of the tax exception for interest income on cheque deposit accounts and of the extraordinary mortgage interest deduction). The reduction of excise duties will be delayed until 2003, but annual revenue is still estimated to fall by about by FIM 5 billion by

2003 (duties on alcohol being the item of greatest fiscal significance). The timing and implementation of the reduction in excise duties will be carried out with a view to the social and welfare consequences of these measures.

The Government programme indicates that the emphasis in taxation will be shifted towards environmental levies, but since prospective changes in environmental and energy taxes have not yet been specified, the calculations in this Programme make no provision for such changes.

The sales of public assets will be decided upon case by case. In its programme, the Government is committed to using privatisation proceeds primarily to reduce government debt and to research and development activities. The projections in this Stability Programme accounts for no privatisation proceeds beyond the year 2000. Should there be any privatisation proceeds after the year 2000, the general government debt ratio foresees a faster reduction than projected in this Programme.

2.3 Local government and social security funds

In the national accounts, the Finnish public sector is classed into central government, local government and social security funds. The local government comprises mostly of municipalities. Employment pension funds, although they are private enterprises, are included in the social security funds of general government because of their statutory nature.

The overall fiscal position of municipalities has been satisfactory in recent years. Even if the tax cuts in earned income targeted by the Government were to include raising the earned income deduction in municipal income tax, this would be offset not only by the Government's commitment to compensate the loss but also by higher corporate and real estate tax revenue as well as adjustments in social welfare and health care fees. Overall, the fiscal stance of municipalities does not deteriorate. The overall fiscal position of local government is expected to be roughly in balance over the election period, and the debt-to-GDP ratio in local government is estimated to diminish somewhat by 2003.

Social security contributions need not be raised in the next few years and unemployment contributions can even be lowered. Still, the financial surplus ratio in the social security funds will remain above 3 per cent. The bulk of the surplus is registered in the employment pension funds, which are making provision for the future pensions of the large baby-boom generation. The stock of capital in the funds is set to increase from the current level of 40 per cent of GDP to about 45 per cent by the year 2003.

In the context of social security financing, the period between 1999-2003 is a time of preparation for the future, as the financial situation deteriorates rapidly after the review period as a result of the ageing population. There is a risk of indirect labour costs increasing by several percentage points early next century if the effective retirement age for the baby-boom generation remains at the current level (the average retirement age is now 59 years). The government aims to raise the effective retirement age by 2 to 3 years, closer to old-age retirement age (generally 63-65 years).

3. Medium term projection for 1999-2003

3.1 Economic outlook for 1999-2003

The economic projections of the programme are based on an assumption that the slowdown of economic growth in the EU area will be brief. The EU economy is assumed to grow annually on average 2 ½ per cent in 1999-2003.

Although brisk GDP growth has continued already for many years in Finland and though there signs of bottlenecks, preconditions for growth are still quite good. If economic policy succeeds, cost developments are likely to remain favourable for growth in the next few years.

Though preconditions for growth are favourable, prudent growth estimates are used as a basis for fiscal policy. Calculations of the programme are based on a short-term forecast for 1999 and 2000 that is presented with the Budget Proposal. The macro-economic projection for 2001-2003 is based on the following assumptions:

-- Growth in Finland will slow down to 2.6 per cent by 2003.

-- Export demand will grow faster than domestic demand as world trade growth picks up again.

-- The exchange and interest rate assumption are based on forward rates observed in August 1999.

-- Wage developments remain moderate.

-- Central government expenditure and incomes develop as described in Chapters 2.1 and 2.2. of this programme.

The average growth during the years 1999-2003 exceeds 3 per cent, but is slightly lower than in the 1980s. Average growth in 1994-1998 was as high as 4 ½ per cent.

Table 1: Main economic indicators for 1998-2003

	1998	1999*	2000*	2001**	2002**	2003**	1999-2003
	change, %						
GDP	5,6	3,8	3,9	3,0	2,6	2,6	3,2
Imports	9,4	4,0	5,3	5,3	5,3	5,3	5,0
Exports	9,6	3,7	6,1	5,0	5,0	5,0	5,0
Private consumption	5,5	4,2	3,7	2,8	2,5	2,5	3,1
Public consumption	1,4	0,6	0,7	0,7	0,7	0,7	0,7
Private investment	11,0	9,9	6,7	4,8	4,7	4,7	6,2
Public investment	-0,3	-2,9	0,2	0,0	0,0	0,0	-0,5
Price of private consumption	1,5	1,1	1,5	1,8	1,8	1,8	1,6
Price of GDP	2,7	0,5	1,5	1,7	1,7	1,7	1,4
Employment	2,4	2,8	1,7	0,8	0,4	0,4	1,2
Labour productivity	3,1	1,0	2,2	2,2	2,2	2,2	2,0
	taso						
Unemployment rate, %	11,4	10,3	9,3	9,0	8,9	8,8	
Employment rate (15-64 years), %	64,1	65,7	66,5	66,9	67,1	67,3	
* forecast							
** medium-term projection							

During the years 1987-1998, average annual productivity growth in the economy surpassed 3 per cent. This is somewhat less than was observed in the 1980s. Productivity growth is estimated to decelerate to 2 per cent under the programme period as growth is focused on the service sector, in which productivity of labour increases slower than in the economy as a

whole. Supply of labour increases faster than the working age population as labour demand develops positively. If the above assumptions hold, the employment rate among the age group 15-64 years can be estimated to rise to 67 per cent and the unemployment rate to be under 9 per cent in 2003.

3.2 Developments in the general government balance between 1999-2003

Public finance estimates presented in Table 2 are based on decisions concerning economic policy and the macro-economic projection presented in Table 1. The assumptions behind

the calculations are discussed in detail in Chapters 2 (fiscal policy) and 3.1 (macro-economic projection).

Table 2: General government net lending and debt (EMU definitions) as a percentage of GDP

	1998	1999*	2000*	2001**	2002**	2003**
Net lending						
Central government	-2,2	-0,2	0,7	0,5	1,1	1,3
Local government	0,0	0,1	0,3	0,2	0,1	0,1
Social security funds	3,1	3,2	3,7	3,5	3,4	3,3
General government total	0,9	3,1	4,7	4,2	4,6	4,7
Debt						
Central government	46,9	43,8	40,3	38,1	35,5	32,9
Local government	2,8	2,8	2,7	2,6	2,5	2,4
Social security funds	0,0	0,0	0,0	0,0	0,0	0,0
General government total	49,7	46,6	42,9	40,7	38,0	35,2
Central government (unconsolidated)	61,3	59,2	55,1	52,3	49,2	46,0
* forecast						
** medium-term projection						

It should be emphasised that the general government fiscal balance in the year 2000 may be weaker than the figure presented in the table if a possible decision later this year to cut income taxes is taken. As was noted in Chapter 2.2, the figures presented in this programme are based on an assumption that cuts in income taxes and social security payments, amounting FIM 11 billion, are made in equal-sized steps during 2001-2003.

The regulation on the content of stability programmes requires scrutiny of public investments. Sustainability of public finances presupposes that a deficit does not exceed investment expenditures, i.e. that current expenditure is not debt-financed. It is equally important for the consolidation of the public finances not to be one-sided, that is carried out by cutting investments alone as this would simply imply postponing some expenditures to the future.

According to the fiscal projection, the general government fiscal surplus will be about 4 ½ per cent in relation to GDP during 2000-2003. Over the programme period, the central government surplus increases, local governments are roughly in balance, and social security funds register a surplus of about 3 ½ per cent in relation to GDP.

Finnish public sector investments have been financed without exception by current income until the recession in the early 1990s. During the years 1992-1996, both the deficit of the general government and of the central government exceeded investment. The situation improved after 1993 and the sustainability of public finances has been since restored.

3.3 Sensitivity analysis of public finances

The diagrams in the appendix illustrate, in addition to the base scenario, fast and slow growth alternatives. In these alternative scenarios, total output growth is assumed to differ by one percentage point from the growth path of the base scenario during 2000-2003. In the slow growth scenario this would imply that annual growth slows down to about 1 ½ per cent at the end of the period. Unemployment would remain roughly at the present level. The general government would register a surplus over the programme period also in this scenario.

In the more favourable scenario, economic growth would remain at level of 3 ½ per cent and unemployment would continue to decrease rapidly.

The analysis of interest rate sensitivity of the public finances is based on a projection in which interest rates are assumed to differ by one percentage point either upwards or downwards from the base scenario from the beginning of 2000. In the high interest rate scenario, total output as well as unemployment, which is vital from the viewpoint of balance of public finances, would deviate from the base scenario less than in the slow growth alternative, while the development of the general government deficit would be more favourable than in the slow growth scenario despite the impact of higher interest rates. Conversely in the low interest rate scenario, general government developments would not be quite as favourable as in the fast growth alternative, with growth in total output and employment also remaining weaker.

3.4 Development of structural deficit

The instructions approved by the Monetary Committee of September 16, 1998 require that stability programmes should provide sufficient information on GDP developments to allow an analysis of the cyclical position of the economy. There is, however, no undisputable method of estimating the so-called structural deficit, and it is difficult to interpret the results obtained.

According to calculations that are based on a smoothed growth path of total production, GDP has reached its trend level and remains above it over the programme period. According to this method, also used by the Commission Services, the structural balance would thus be weaker than the predicted actual balance. It is, however, difficult to provide a clear economic interpretation for the figures obtained with the method.

A method based on potential output, obtained with a production function and an estimate for structural unemployment, is more justifiable than the method based on trend growth. Moreover, the results can be interpreted more easily. The structural deficit obtained with the method is, however, sensitive to the level of structural unemployment which is in turn

difficult to estimate due to the rapidly changing economic environment.

During recent years, international organisations have estimated that Finnish structural unemployment is at the level of roughly 10 per cent. Due to some structural reforms recently carried out, there are reasons to assume that the level has lowered somewhat. Assuming that the rate of structural unemployment is now 8 per cent, the main scenario can be considered to be sustainable. Unemployment would not go below its structural level and the structural fiscal balance would be somewhat better than the actual balance.

Growth rates higher than those in the main scenario would require continuation of structural reforms aiming at lower structural unemployment. If they are continued, preconditions for growth would be better and the structural budget balance could be conceived to be stronger than the actual balance also in the fast growth scenario. Fiscal pressures would thus, in the conditions of sustainable growth, be less severe. This is an argument for continuing structural reforms in the labour market.

4. Structural policy

Economic growth has been exceptionally rapid in Finland since 1994 and economic imbalances have largely been corrected. Employment has increased markedly, but is still considerable lower than in the 1980s. The value added share of manufacturing industries has increased and industrial base has been widened due to the rise of the electronics industry. The Finnish economy is, however, facing two new major challenges. First, the competition facing the Finnish economy is clearly gaining strength and spreading to new sectors. The traditional, sheltered economy is narrowing. Introduction of the Euro and deepening of the Single Market are essential factors in this. Second, ageing of the population will soon lower labour supply and consequently the financial base for social security and pension expenditures will decrease. The diminishing labour force constrains growth prospects and causes an increasing pressure for public finances.

The above-mentioned challenges highlight the importance of tight fiscal policy and structural reforms. It is increasingly important to concentrate on long term problems in public finances, i.e. restricting expenditure pressures stemming from the ageing of the population and reducing the central government indebtedness. The task of structural policy, which is an important area of economic policy, is to guarantee the preconditions for balanced growth, supporting employment. The following elements are important in structural policy:

- **Securing adequate labour supply and enhancing the operation of the labour markets.** The government aims to increase the employment rate (the employed divided by the working age population) towards 70 per cent. One of the biggest challenges of the next few years is to keep elderly employees at work. At the moment, only 45 per cent of people in the age group 55-64 are at work. The social partners and the employment pension funds agreed in June on some measures aiming at higher retirement ages. The agreed measures

target improving work-related skills and employability of this age group. Moreover, the level of unemployment pensions will be brought down and the age limit for the individual early retirement pension will be raised. The government sees the reached agreement as a positive development and is ready, for its part, to implement it. Moreover, the government follows up the implementation of the agreement and assesses, together with the social partners, the sufficiency of the measures. The government will, based on this assessment and if necessary, take supplementary measures.

Aiming to further reduce unemployment, social benefits and taxes will co-ordinated better such that working is always gainful. Active labour market measures will be targeted particularly towards reducing long-term unemployment. Also, operation of the employment service will be enhanced. The government has presented in detail its employment policy in the national action plan adopted in May.

The government aims to develop working life abiding by the established tripartite principle and bases its actions on good co-operation with the social partners. Labour jurisdiction is developed such that the security of employees and the flexibility needed by firms form a balanced whole. Flexibility of wages and employment conditions with respect to economic cycles, sectors or changes at the local level will be increased. The employment contract act will be revised and the government supports varied working time arrangements.

According to the Broad Economic Policy Guidelines, adopted at the EU-level, employment-related measures in Finland should be directed at a reduction of the overall tax burden on labour, at a review of benefit and assistance systems, and at strengthening the pension system by reviewing the conditions for access to early retirement. The government's employment policy is in congruence with these recommendations.

- **Enhancing operation of product and capital markets.** By enhancing the operation of the markets, the risk of the economy overheating can be reduced and, on the other hand, preconditions for profitable production can be created. Eliminating barriers to competition promotes the introduction of new innovations to the markets. The flexibility of the economy assists in adapting to changes in global demand. In line with the Broad Economic Policy Guidelines, emphasis will be put on the branches in which public and private sectors operate. By simplifying the legislation faced by enterprises, more leeway for production and competition is created. Aiming to enhance the operation of capital markets, neutral tax treatment of the various securities is guaranteed.

In the report on reforms of product and capital markets that will be updated this autumn, the government will define policy actions directed at enhancing the operation of these markets. Yearly reports by the Member States serve as a basis when summary reports on structural policies are drafted at the EU-level. These summary reports form, together with the National Action Plans on Employment, a starting point for drafting the Broad Economic Policy Guidelines.

- **Further advancing the educational level of the population and enhancing research and development activities.** Educational levels rise rapidly in the newly industrialised countries and growth of the international economy concentrates on high-technology products and services. These developments create a constant challenge for the Finnish education system. In order to raise the overall educational level and to increase the length of working careers, free pre-school education for 6-years old children will be provided. Moreover, the efficiency of education is increased, particularly at the university level, by shortening the length of studies. The main emphasis in vocational training is at rising the quality.

Increasing the quality and effectiveness of education and research creates a base for innovations, for developing high-tech technologies as well as for continuing a growth strategy aiming at an overall elevation of value-added in production. In the beginning of the 1980s, a target was set to raise the ratio of R&D expenditure to GDP from 1.2 per cent to 2.3 per cent in 10 years. Later the target was brought up to 2.9 per cent, and this target may be met this year. In its programme, the government is committed to securing, in collaboration with the private sector, the overall level of R&D activities at the current level. Evaluation of the quality of research and productivity of financing allocated to research will be increasingly emphasised in the future.

Chart 1

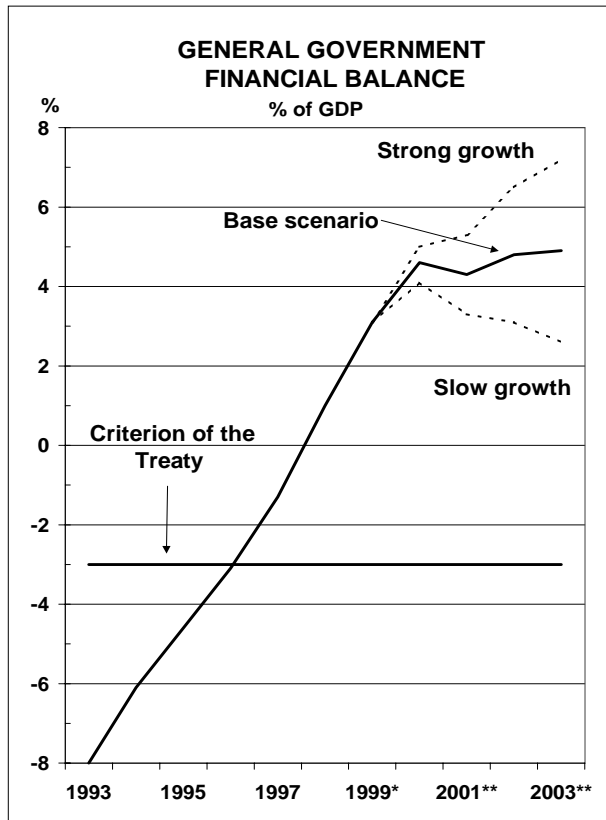


Chart 2

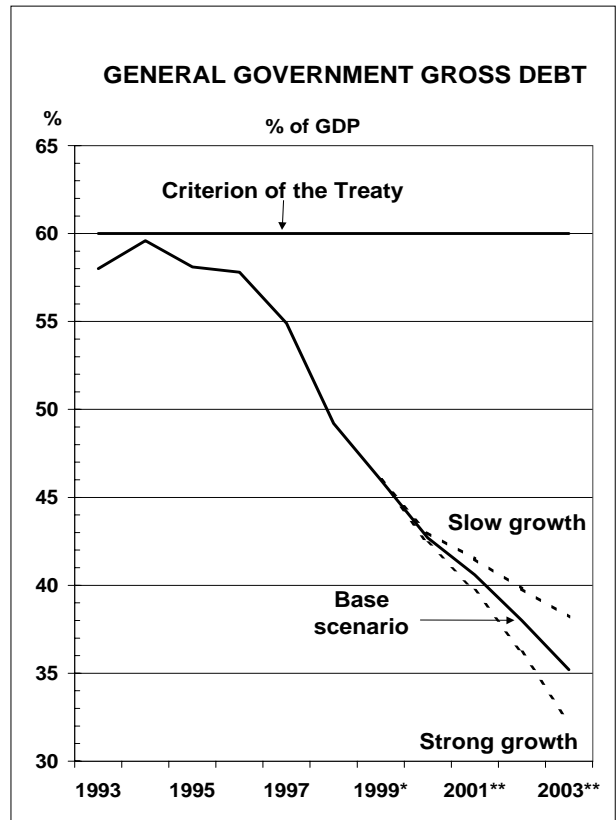


Chart 3

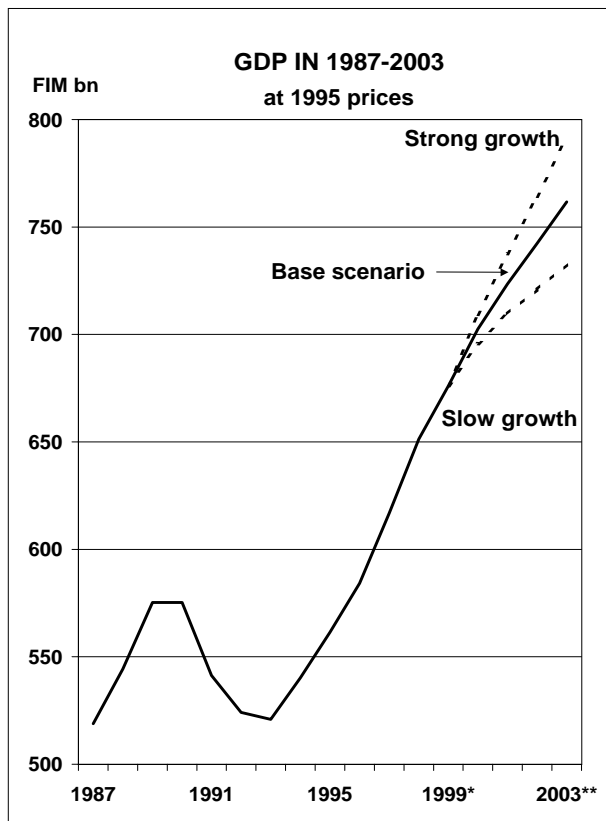
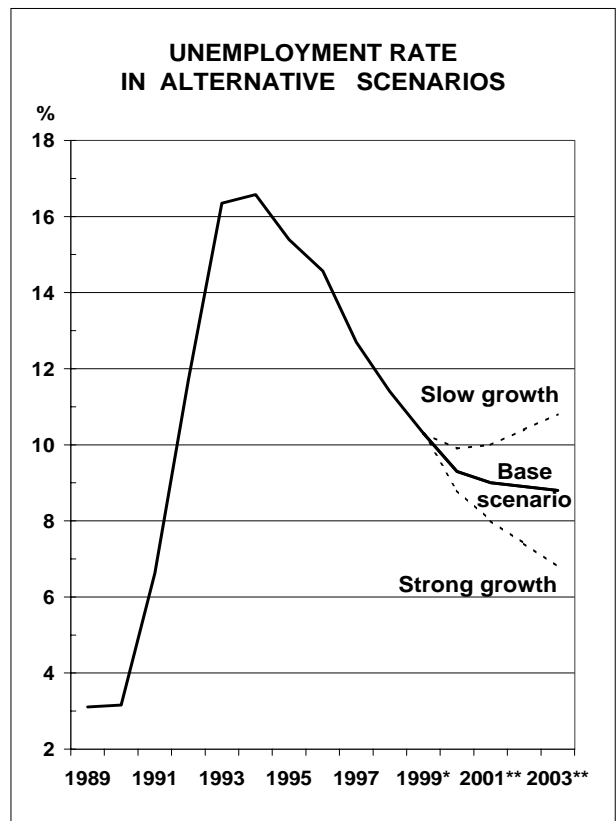


Chart 4



Appendix tables

A1. General government finances as a percentage of GDP

	1998	1999*	2000*	2001**	2002**	2003**
Taxes	32,9	33,1	33,2	32,5	32,2	31,6
Social security contributions	13,1	13,1	13,1	13,1	13,1	13,1
Other revenue	5,2	5,0	5,1	4,8	4,7	4,6
Total revenue	51,2	51,2	51,4	50,4	49,9	49,3
Consumption expenditure	21,4	21,1	20,7	20,5	20,4	20,3
Subsidies	2,3	2,1	2,1	2,1	2,1	2,1
Social income transfers	18,4	17,8	17,1	17,0	16,9	16,8
Interest payments	4,8	4,4	4,1	3,9	3,4	3,1
Other expenditure	2,3	2,1	2,2	2,2	2,2	2,2
Total expenditure	49,2	47,6	46,1	45,7	45,1	44,6
Saving	2,0	3,6	5,2	4,6	4,9	4,7
Depreciation and net capital transfers	2,2	2,3	2,2	2,2	2,2	2,2
Gross capital formation	2,8	2,8	2,7	2,6	2,4	2,2
Financial surplus, net lending (1)	1,4	3,1	4,7	4,2	4,6	4,7
Total expenditure (2)	52,1	50,5	49,0	48,6	47,7	47,1

1) The National Accounts definition of general government surplus is not identical to the EMU surplus.
2) Including capital formation.

A2. General government interest payments and primary balance as a percentage of GDP

	1998	1999*	2000*	2001**	2002**	2003**
Gross interest payments	4,8	4,4	4,1	3,9	3,4	3,1
Primary balance	6,2	7,6	8,8	8,2	8,0	7,8
Net lending	1,4	3,1	4,7	4,2	4,6	4,7

A3. General government financial balance and debt (EMU definitions) as a percentage of GDP

	1998	1999*	2000*	2001**	2002**	2003**
Financial balance, net lending (-), %	0,9	3,1	4,7	4,2	4,6	4,7
Stock flow adjustments	-0,1	2,8	3,6	4,0	3,7	3,6
-Public sector consolidation (1)	-2,2	-1,4	0,0	0,0	0,0	0,0
-Impact of exchange rates (2)	-0,2	0,6	0,0	0,0	0,0	0,0
-Net accumulation of financial assets	2,4	3,6	3,6	4,0	3,7	3,6
Impact of nominal increase in GDP	-4,6	-2,1	-2,5	-2,0	-1,8	-1,7
Change in gross debt	-5,3	-3,1	-3,7	-2,3	-2,7	-2,8
Level of gross debt, %	49,7	46,6	42,9	40,7	38,0	35,2

1) The employment pension funds are assumed to invest about FIM 10 bn in government bonds in 1999.
2) Exchange rates estimated to remain at July 1999 level between 1999-2003.

A4. General government financial balance, debt and main economic indicators between 1995-2003, according to the Convergence Programmes of 1995-1997 and the Stability Programmes of 1998 and 1999, as a percentage of GDP

	1995	1996	1997	1998*	1999*	2000**	2001**	2002**	2003**
Financial balance									
CP-95	-5,3	-0,7	0,5	1,4	2,3				
CP-96	-5,2	-2,9	-1,4	-0,5	0,3	1,1			
CP-97	-5,0	-3,1	-1,3	-0,1	0,3	1,0	1,9		
SP-98			-1,1	1,1	2,4	2,2	2,1	2,3	
SP-99	-4,6	-3,1	-1,2	0,9	3,1	4,7	4,2	4,6	4,7
Debt									
CP-95	64,9	64,8	64,8	61,8	59,2				
CP-96	59,4	61,8	61,0	59,9	58,3	56,5			
CP-97	58,1	58,0	59,1	57,5	56,3	54,8	52,0		
SP-98			55,1	51,9	48,5	46,4	44,8	43,2	
SP-99	58,1	57,6	55,0	49,7	46,6	42,9	40,7	38,0	35,2
GDP, % change									
CP-95	5,0	4,5	4,0	3,0	2,5				
CP-96	4,3	2,8	3,9	4,0	3,5	3,0			
CP-97		3,3	4,5	3,5	3,5	3,0	2,8		
SP-98			6,0	5,5	4,0	2,7	2,6	2,6	
SP-99	3,9	4,1	5,6	5,6	3,8	3,9	3,0	2,6	2,6
Employment, % change									
CP-95	2,9	2,8	2,0	1,1	0,7				
CP-96	2,2	1,5	1,7	1,9	2,3	1,4			
CP-97		1,0	1,7	1,4	1,5	1,4	1,3		
SP-98			2,5	2,6	1,9	1,0	0,8	0,7	
SP-99	2,2	1,4	2,0	2,4	2,8	1,7	0,8	0,4	0,4
General government revenue									
CP-95	52,1	53,0	53,1	53,1	53,1				
CP-96	53,0	54,9	53,8	53,3	52,7	52,3			
CP-97		54,6	54,2	53,2	52,1	51,5	51,4		
SP-98			52,7	52,1	50,7	49,8	49,3	48,7	
SP-99	51,7	52,8	51,4	51,2	51,2	51,4	50,4	49,9	49,3
General government expenditure (1)									
CP-95	56,1	52,8	51,6	50,8	49,9				
CP-96	56,3	56,4	53,7	52,2	50,8	49,8			
CP-97		56,4	53,9	52,0	50,6	49,3	48,2		
SP-98			52,9	50,0	47,5	46,7	46,1	45,4	
SP-99	55,4	54,7	52,3	49,2	47,6	46,1	45,7	45,1	44,6

CP-95 Convergence Programme, September 1995

CP-96 Convergence Programme update, September 1996

CP-97 Convergence Programme update, September 1997

SP-98 Stability Programme, September 1998

SP-99 Actual figures and Stability Programme, September 1999 update

1) Excluding capital expenditure.