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Commission assesses the updated Stability Programme of Spain

The European Commission today adopted a Recommendation to the Council of Ministers on the updated Stability Programme of Spain (1999-2003). The Commission concludes that the updated Stability Programme, which reaffirms the strategy adopted in last year's programme, is in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines. Implementation of the 1998 stability programme appears to have achieved most of the initial targets for 1999. The general government deficit of 1.3% of GDP in 1999 is expected to turn into a surplus of 0.2% of GDP in 2003. The debt-to-GDP ratio is expected to decline from 63.5% in 1999 to 55.8% in 2003. Budgetary projections are based on macroeconomic scenario assuming GDP growth of 3.7% per year for 1999-2000 and 3.3% on average over the period 2001-2003. On the basis of the Commission's Recommendation, the Council is expected to adopt a formal opinion on the Spanish Stability Programme update on [28 February 2000].

The Commission Recommendation was adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, as part of the procedures set in the Stability and Growth Pact for surveillance and co-ordination of national economic and budgetary policies at the level of the European Union.

The Stability and Growth Pact, adopted by the European Council at its meeting in Amsterdam in June 1997, requires Member States participating in the euro-zone to present stability programmes and their updates to the Council and the Commission. The programmes provide information on how Member States intend to meet the objectives of the Pact, in particular, the medium-term budgetary target of a general government budget close to balance or in surplus which will enable their finances to withstand normal cyclical fluctuations without exceeding the reference value of a deficit of 3 % of GDP. The Spanish updated programme was submitted on 25 January 2000.

The Commission's Recommendation highlights the following:

- The updated programme is in line with the requirements of the Stability and Growth Pact.
- The implementation of the 1998 Stability Programme up to now has been favourable. Real GDP has grown briskly along with strong employment creation. As regards public finances, general government balance and debt targets for 1999 are expected to have been improved. However, price developments since the second half of 1999 have been worse than expected.
- In the light of recent developments on prices, it is essential that wage moderation continues to be geared towards price stability. Additionally, a tighter fiscal policy could be needed in case of any possible overheating risk.

- The update of the Stability Programme is based on a macroeconomic scenario which forecasts a GDP growth of 3.7% for both 1999 and 2000, and 3.3% on average during the period 2001-2003. This macroeconomic scenario appears realistic according to past experience and the catching-up process in which Spain is involved.
- The strategy adopted in the 1998 Stability Programme is reaffirmed in the update: promoting healthy economic growth through fiscal consolidation and structural reforms. Primary objectives of this policy are real convergence with the European partners in terms of per capita income and reduction of the unemployment rate. As for the general government sector, the main goals are to turn the expected deficit of 1.3% of GDP in 1999 into a surplus of 0.2% in 2003, and to reduce the debt-to-GDP ratio to 55.8% by the end of the forecasting period.
- Reduction of current primary expenditure has been instrumental to the reduction of government deficit in Spain. This will be continued in the update which aims at government surpluses from 2002 on and at the same time gives room to reduce the tax burden while increasing public investment. Given the high reliance on expenditure reduction, the implementation of the still pending reform of the National Budget Law to reinforce the control of public spending would be welcome.
- The forecasted surplus of 0.1% of GDP in 2002 would provide sufficient safety margin against breaching the 3% of GDP deficit threshold in a normal cyclical downturn. Continued fiscal consolidation embodied in the updated programme is, however, justified in view of future effects of population ageing. In this respect the European Commission welcomes the commitment made in the updated programme to further increase the social security reserve fund created in 2000.
- The budgetary adjustment effort is to be shared by all sub-sectors of government. Given the increasing role of territorial governments in various categories of expenditure the well functioning of the present inter-governmental co-ordination mechanisms is necessary.
- Finally, as in the 1998 Stability Programme, the update acknowledges the increasing role of structural policies in the EMU context. Implemented structural reforms have indeed played an important role in increasing the potential output of the Spanish economy and have underpinned the growth differential with respect to the EU along with strong job creation registered in recent years. In this respect, the continuation of the structural reforms envisaged in the 1998 Stability Programme and in the Progress Report on the Reform of Goods, Services and Capital markets is essential to allow non-inflationary employment-oriented growth. These measures are consistent with the Broad Economic Policy Guidelines.

Key Figures of the updated Spanish Stability Programme

	1999	2000	2001	2002	2003
Real GDP growth rate (annual % change) [1]	3,7	3,7	3,3	3,3	3,3
General government net lending (+) or net borrowing (-) (% of GDP)	-1,3	-0,8	-0,4	0,1	0,2
Government debt (% of GDP)	63,5	62,8	60,6	58,1	55,8
Inflation (private consumption deflator, annual % change) [1]	2,3	2,0	1,9	1,9	1,9
Employment (%) [1, 2]	3,2	2,7	2,2	2,2	2,2

1) The average growth rates for the period 2001-2003 in the programme have been assigned as annual rates for each year.

2) For ESA-95 the time series is based on full-time equivalent jobs