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Commission assesses updated Stability Programme of Finland

The European Commission today made a recommendation to the Council of Ministers on the updated Stability Programme of Finland, which covers the period 1999-2003. This is in accordance with the Council Regulation on the strengthening of the surveillance of budgetary positions and the surveillance and co-ordination of economic policies. The Commission concludes that the economic and budgetary policies presented in the updated Stability Programme of Finland are in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines. Finland's Stability Programme update points to a general government surplus of 3.1% of GDP in 1999 and aims at surpluses above 4% of GDP, through the period until 2003. This would be clearly sufficient to provide a safety margin against breaching the 3% of GDP deficit threshold in normal cyclical situation. Continued fiscal consolidation embodied in the updated programme is also justified in view of future effects of population ageing in the social security sector. On the basis of the Commission's recommendation, the Council is expected to adopt a formal opinion on the Finnish Stability Programme update on 31 January 2000.

The Commission recommendation was adopted on the initiative of Mr. Pedro Solbes Mira, Commissioner responsible for economic, monetary and financial affairs. This recommendation is part of the procedures in the stability and growth pact for surveillance and coordination of national economic and budgetary policies at the level of the European Union.

The Stability and Growth Pact adopted by the Amsterdam European Council in June 1997 requires countries participating in the Euro-zone to present updates of the stability programmes annually to the Council and to the Commission. These programmes provide information on 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 Commission's main conclusions are:

- The updated programme is in line with the requirements of the Stability and Growth Pact.
- There is a very good record of implementation of the 1998 Stability Programme up to now, especially for public finances. The 1998 Programme projections for improvement of the budget balance and the reduction in government debt have been exceeded.

- The Finnish authorities have focused on reducing the ratio of expenditure to GDP through the implementation of restrictive multi-annual expenditure ceilings for central government. This approach was presented in the initial Stability Programme and is continued in the update. By so doing, the updated programme aims at government surpluses above 4% of GDP and at the same time at reducing the tax burden. These results would be clearly sufficient to provide a safety margin against breaching the 3% of GDP deficit threshold in normal cyclical situation. Moreover, debt reduction could now actually exceed the expectations in the updated Programme due to more intensive privatisation measures.
- The updated Stability Programme addresses the issue of structural reforms. Fiscal and labour market reforms are needed to reduce the current heavy overall taxation and social contribution burden on labour. Regarding public expenditure, it is opportune to review benefit entitlements and the structure of the pension system. The reductions in government expenditure and revenue relative to GDP foreseen in the updated Programme are themselves consistent with increasing employment, which the government identifies as its main economic objective. Further structural reforms in market services and in the labour market would also support employment creation.

Key Figures of the Finnish Stability Programme update

	1999	**2000**	**2001**	**2002**	**2003**
Real GDP growth rate (annual % change)	3.8	3.9	3.0	2.6	2.6
General government budget surplus (% of GDP)	3.1	4.7	4.2	4.6	4.7
Government debt (% of GDP)	46.6	42.9	40.7	38.0	35.2
Inflation (private consumption deflator, annual % change)	1.1	1.5	1.8	1.8	1.8
Employment (%)	2.8	1.7	0.8	0.4	0.4