

Brussels, 15 February 2000

Commission assesses updated Convergence Programme of the United Kingdom

The European Commission today adopted a Recommendation to the Council of Ministers on the updated Programme of the United Kingdom (1999-2005). The Commission conclusion is that the budgetary projections of the updated programme are in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines agreed at the Cardiff European Council. The updated programme presents the macroeconomic and budgetary perspectives for the period 1998-99 to 2004-05. Economic growth is expected to be around its trend rate over the period of the programme, estimated to be 2½% a year. The budget is expected to show small surpluses to 2001-02 and small deficits thereafter. The debt to GDP ratio is expected to fall to 38% in 2004-05. On the basis of the Commission Recommendation, the Council is expected to adopt a formal opinion on the updated United Kingdom Convergence Programme 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. European Union.

The Stability and Growth Pact, adopted by the European Council at its meeting in Amsterdam in June 1997, requires countries not adopting the single currency to present, annually, updated convergence programmes 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 UK updated programme was submitted on 21 December 1999.

The Commission's Recommendation highlights the following:

- the programme gives realistic projections of the macro-economic outlook and the budgetary position throughout the period to 2004-05. The latter show close to balance in underlying terms. The government finances therefore fulfil the requirements of the Stability and Growth Pact and of the convergence criterion.
- the expected decline in the debt ratio to 38% of GDP by the year 2004-05 is a welcome achievement;
- Both the monetary framework introduced by the government in June 1997 and the fiscal rules underpinning the Code for Fiscal Stability have been associated with a sound, stable, macro-economic performance over the last 2½ years and the securing of the government's inflation target. Inflation expectations have been lowered.

- nevertheless, a significant fall in sterling remains a risk to the macro-economic development presented in the programme. It is therefore appropriate that the United Kingdom continues with the stability oriented policies which in turn, should help re-enforce a stable economic environment. ERM2 membership could add another pillar of stability to the sound of effective fiscal and monetary framework already in place.

Key figures of the UK Convergence Programme

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Real GDP	2¼	2¼	2¼	2¼	2¼	2¼
GDP deflator	2¼	2½	2½	2½	2½	2½
Gen. Gov net borrowing (% GDP) ^{1 2}	-0.3	-0.2	-0.2	0.1	0.4	0.5
Gen gov gross debt ¹	44.9	43.1	41.3	39.9	38.8	38.0
<i>Source: United Kingdom convergence programme.1999</i>						

¹ *ESA95 basis*

² *a negative value means a surplus; a positive value means a deficit*