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Commission assesses the updated Stability Programme of Spain

The European Commission today made a recommendation to the Council of Ministers on the second and most recent updated Stability Programme of Spain, which covers the period 2000-2004. The Commission concludes that the updated Stability Programme of Spain is in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines (BEPG). The Commission notes that surpluses targeted for the medium-term are higher compared with the previous update, with the general government expected to be in balance in 2001 and in surplus thereafter. This improvement accords with the recommendation of the 2000 BEPG. Nevertheless, rising core inflation in Spain is of concern, and fiscal policy should be ready to tighten further to counteract any additional overheating pressures. The Commission considers that continued fiscal consolidation embodied in the updated programme is also justified in view of future effects of population ageing, to which Spain is particularly exposed. In the light of this, the Commission recommends that in future updates Spain give greater attention to the long-term sustainability of its public finances. On the basis of the Commission's recommendation, the Council is expected to adopt a formal opinion on the update of Spain's Stability Programme on 12 March 2001.

The Commission recommendation is adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, who commenting on the programme said: *"The Commission's assessment of the Member States' stability programmes is an important element in the multilateral surveillance process. Given the continuous improving of economic policy co-ordination in the Union and the important spill-over effects that economic policies in one Member State can have for the euro-zone as a whole, the Commission will put increasing emphasis in its analysis on the degree of ambition with which Member States plan to conduct their economic policies over the short and medium term. An assessment of how Member States plan to tackle budgetary consolidation and implement structural reforms, on the appropriateness of the policy-mix given the current economic cycle, or on how to deal with sustainability issues like the consequences of ageing population are among the issues included in our analysis."*

The Commission’s main conclusions on the Spanish programme are as follows:

- Implementation of the previous updated Stability Programme covering the period 1999-2003 has been broadly on track. In 2000, real GDP and employment have grown more briskly than expected. Regarding general government accounts, both balance and debt targets have been overachieved. However recent price developments have been worse than expected, reflecting increasing core inflation as well as external factors, which is a matter of concern. It is therefore considered essential that wage growth continues to be geared towards price stability. Moreover, fiscal policy should be ready to tighten further to counteract additional overheating pressures.
- The update of the Stability Programme is based on a macroeconomic scenario which forecasts GDP growth of 3.6% for 2001, and 3.2% on average during the period 2002-2004, while the GDP deflator would rise by 2.3% and 2.5% respectively. Although for 2001 recent developments may point to a weaker outturn and higher inflation, the medium-term macroeconomic scenario appears broadly realistic according to past experience and the catching-up process in which Spain is involved.
- Fiscal objectives are to turn the expected general government deficit of 0.3% of GDP in 2000 into a balance in 2001 and to reach a surplus of 0.3% in 2004, while the debt-to-GDP ratio would be reduced to just under 50% by the end of the programme period. These improvements will be shared by all general government sub-sectors. Given the increasing role of territorial governments in various categories of expenditure (notably investment), this requires the continued effective functioning of the existing co-ordination between general government sub-sectors.
- The fiscal strategy is based on the continued restraint of primary current expenditure, which will allow for a reinforcement of government investment and for a reduction in the tax burden through a fiscal reform in 2002. However, this reform should be subject to the achievement of fiscal targets and take into account developments as regards price stability.
- From 2001 the projected government balances would be clearly sufficient to provide a safety margin against breaching the 3% of GDP deficit threshold in a normal cyclical downturn and thus in compliance with the SGP requirements. In addition, the envisaged widening of the safety margin is justified in order to cope with the budgetary consequences of ageing. In this respect the Commission welcomes the commitment made by the Spanish authorities to allocate the expected social security surpluses to further increase the Social Security reserve fund created in 2000. However, the update does not include a comprehensive response to the long-term sustainability of public finances in view of the ageing population.
- As in the two previous programmes, the update acknowledges the increasing role of structural policies in the EMU context. Structural reforms play an important role in increasing the potential output of the Spanish economy while easing inflationary pressures. These measures are consistent with the Broad Economic Policy Guidelines.

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.

Key Figures of the Updated Spanish Stability Programme

	1999	**2000**	**2001**	**2002**	**2003**	**2004**
Real GDP growth rate (annual % change)	4.0	4.0	3.6	3.2[1]		
General government net lending (+) or net borrowing (-) (% of GDP)	-1.1	-0,3	0.0	0.2	0.3	0.3
Government debt (% of GDP)	63.3	61.1	58.9	56.6	52.8	49.6
Inflation (private consumption deflator, annual % change)	2.5	3.2	2.7	2.0[1]		
Employment (annual % change) [2]	3.6	3.0	2.5	2.1[1]		

1) Only average growth rates for the period 2002-2004 are given in the programme.
2) Full-time equivalent jobs.