

Brussels, 10 January 2001

Commission assesses updated Swedish convergence programme (2000-2003)

The European Commission has adopted a recommendation to the Council of Ministers on the 2000 update of the Swedish convergence programme (2000-2003). The Commission concludes that the updated programme is in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines. GDP growth is forecast to be 3.9% in 2000 and 3.5% in 2001. The general government budget balance is expected to show strong surpluses of about 3.5% of GDP in 2000 and 2001. In 2002 and 2003, a technical assumption of a cautious 2.1% GDP growth is made. On this basis, budget surpluses of at least 2% of GDP, Sweden's surplus target over the cycle, are expected. Such surpluses would be clearly sufficient to provide a safety margin against breaching the deficit threshold of 3% of GDP in normal cyclical fluctuations. Continued fiscal consolidation, as embodied in the programme, is also justified in order to achieve long-term sustainability of public finances. The debt to GDP ratio is expected to fall to below 60% in 2000 and to continue to fall substantially over the programme period. On the basis of the Commission's recommendation, the Ecofin Council is expected to adopt a formal opinion on the updated Swedish convergence programme on [19 January 2001].

The Commission recommendation is adopted on the initiative of Pedro Solbes Mira, EU Commissioner responsible for economic and monetary affairs, who commenting on the programme said: *"The Commission's assessment of the convergence programmes for the Member States is an important element in the multilateral surveillance process. Given the continuous strengthening of economic policy co-ordination in the Union, the Commission will put increasing emphasis in its analysis on the conduct of economic policies over the medium term. An assessment of how member states plan to 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 in our analysis."*

The Commission's main conclusions on the Swedish programme are the following:

- The Swedish economy has developed broadly favourably in the period since the presentation of the 1999 programme. Output growth has been strong, inflation has remained low and unemployment has fallen substantially. The 2000 update forecasts GDP growth at 3.9% in 2000 and 3.5% in 2001. For 2002 and 2003 no forecasts are presented and the update assumes a cautious 2.1% GDP growth, considered to be the trend growth rate. It is therefore recommended that Sweden includes actual economic forecasts in future updates, in order to facilitate the evaluation of Sweden's medium-term fiscal policy.

- As regards public finances, a budget surplus of 1.5% of GDP was recorded in 1999 and further improvement is expected in 2000 and 2001. For the outer years of the update, the rule of a surplus of 2% of GDP over the cycle is maintained. Although higher surpluses are estimated for 2002 and 2003, on current policy, the programme does not state whether Sweden will aim for these estimated surpluses or if the 'excess' surplus above 2% of GDP will be transferred to the household sector. The debt ratio is expected to fall below the reference value of 60% of GDP in 2000, and to continue to fall substantially over the programme period.
- The 2000 Broad Economic Policy Guidelines stated that fiscal policy in Sweden should support monetary policy in its achievement of the inflation target. Inflationary pressures have remained subdued in 2000 and are expected to remain so in 2001. Should wage moderation weaken, however, price stability may be threatened. In such a case, an expansionary fiscal stance in 2001 and 2002, as implied in the programme, would be inappropriate in the face of an economy where output is above or close to potential. Results of the current wage negotiations will be crucial in this context.
- The surplus target of 2% on average over the cycle until 2015 is welcome, in order to achieve long-term sustainability of public finances. To this end, further efforts to restrict expenditure should also be pursued. This is because, as the programme recognises, on top of the need to cope with the ageing of the population, Sweden may have difficulties in maintaining a high tax ratio, given the continuing internationalisation of the economy, pointing to the probable need for further reductions in taxes.
- In order to obtain sustainable economic growth, the updated programme outlines structural measures being undertaken with a view to enhancing the supply side of the economy, mainly the reduction of the, still, too high tax burden. These measures are also consistent with the Broad Economic Policy Guidelines.
- Sweden comfortably meets the convergence criteria on the government budgetary position, inflation and interest rate. However, as concluded in the Convergence Report 2000, Sweden does not fulfil the exchange rate criterion. To this end, Sweden is expected to decide to join the ERM2 in due course. Furthermore, current legislation is not in compliance with the statute of the ESCB, as concluded in the Commission's Convergence Report 2000 .

The Stability and Growth Pact, adopted by the Amsterdam European Council in June 1997, requires countries not adopting the single currency to present, annually, updated convergence programmes to the Council and the Commission. The aim of these updated programmes is to provide information on how Member States intend to meet the objectives of the Pact, in particular, the medium-term goal of a budget close to balance or in surplus.

Key figures from the updated convergence programme (CP) of Sweden

		1999	2000	2001	2002	2003
Real GDP growth (percentage change)	2000 update	4.1 ²	3.9	3.5	2.1	2.1
	1999 update	3.6	3.0	2.2	2.0	-
General government balance (% of GDP)	2000 update	1.5 ²	3.4	3.5	3.3(2.0) ¹	3.6(2.0) ¹
	1999 update	1.7	2.1	2.0(2.0) ¹	2.9(2.0) ¹	-
General government debt (% of GDP)	2000 update	64.8 ²	58.9	53.2	50.2	48.2
	1999 update	66.1	58.8	54.1	52.0	-
Inflation (CPI, Dec.-Dec.) (percentage change)	2000 update	1.2	1.1	1.7	2.0	2.0
	1999 update	0.9	1.3	2.0	2.0	-

¹The figures in brackets refer to Sweden's target for government finances over the cycle.

²Revised data for 1999 was published after the submission of the updated programme and is included in the table above.