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Commission assesses updated United Kingdom Convergence Programme (2000-2005)

The European Commission has today made a recommendation to the Council of Ministers on the updated United Kingdom Convergence Programme. The Commission's 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. The updated programme presents the macroeconomic and budgetary perspectives for the period 1999-2000 to 2005-2006. Economic growth is expected to be around its trend rate, estimated to be 2½% a year, over the years 2001-2002 to 2005-2006, of the programme. The budget is expected to show surpluses to 2001-2002 and deficits thereafter rising to around 1% of GDP in the three final years of the programme. The debt to GDP ratio is expected to fall to 35% in 2005-2006. On the basis of the Commission recommendation, the Council is expected to adopt a formal opinion on the updated United Kingdom Convergence Programme on [12 February 2001].

The Commission recommendation is adopted on the initiative of Pedro Solbes, 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 regarding the updated United Kingdom convergence programme are the following:

- The economy has developed favourably and budget goals have been achieved since the presentation of the 1999 update. The economic projections suggest a continuation of this benign performance with GDP growth, at the centre of the forecast ranges, being 2½% - the estimate of trend growth. Inflation is projected close to target. This favourable situation has accompanied monetary and fiscal policies put in place by the government to secure macro-economic stability.
- This macro-economic outlook looks plausible. Indeed, the middle of the range GDP growth projections look cautious given the potential for UK productivity growth to improve and for further rises in the employment rate. That inflation will remain close to the 2½% target, looks likely. The convergence criteria on inflation and long-term interest rates are comfortably met.

- The programme presents projections and analyses of the public finances to 2005-2006. The average of the cyclically adjusted finances over the period of the programme is very ‘close to balance’. This is consistent with the Stability and Growth Pact. Nevertheless a structural deficit will emerge for three years, 2003-2004 to 2005-2006. The authorities should be alive to any structural reduction in the government finances that threaten to take the balance away from the objectives of the Stability and Growth Pact and take remedial action if necessary. Gross debt relative to GDP falls from 40% in 2000-2001 to 35% by the end of the programme period.
- In general the Broad Economic Policy Guidelines are upheld. Further, resources have been allocated to public sector investment in accordance with the Broad Economic Policy Guidelines.
- The provision of long term forecasts of public finances showing them to be sustainable on current policies is welcome as is the description of policies that could be addressed to minimise the impact of ‘ageing’ on the finances.
- The government is of the view that exchange rate stability will be achieved on the basis of sound economic fundamentals, that is economic stability. Indeed there is some evidence to suggest that exchange rate volatility has declined in recent years but it cannot be concluded that this policy framework has delivered a stable exchange rate. Therefore it is appropriate that the United Kingdom continue with the stability oriented policies with a view to securing exchange rate stability which, in turn, should help re-enforce a stable economic environment.

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 Convergence Programme of the United Kingdom

1999-2000 to 2005-2006

	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
GDP growth %	2¼	3	2¼-2¾	2¼-2¾	2¼-2¾	-	-
RPIX inflation to Q4 %	2¼	2¼	2½	2½	2½	-	-
General government net borrowing %GDP[1]	-1.8	-1.1	-0.6	0.1	0.9	1.0	1.1
General government gross debt % GDP[1]	43.6	40.1	37.7	36.1	35.6	35.5	35.4

[1] Financial years 1999-2000 to 2005-2006 respectively; negative value means a surplus.