COUNCIL OPINION

of 22 January 2002

on the updated stability programme of Finland, 2001-2004

(2002/C 33/02)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 22 January 2002 the Council examined Finland's updated stability programme, which covers the period 2001-2004. The Council notes with satisfaction that the general government surplus, which exceeded expectations in 2000, is projected to remain at a fairly high level throughout the programme period. The general government debt to GDP ratio is expected to continue to decline, although more moderately than previously projected. The Council considers that the updated programme is consistent with the broad economic policy guidelines.

The macroeconomic scenario presented in the 2001 updated stability programme expects a strong deceleration of economic growth in 2001, mainly due to the sharp decline in the external balance. In the following years, GDP is assumed to gradually accelerate attaining a rate close to potential at the end of the period. Although considerable risks regarding the short-term outlook prevail at the moment, most recent data suggest that the economy has bottomed out in the second half of 2001. As a consequence, the assumption of a revival from 2002 on appears plausible. However, this crucially hinges on the expected upturn of employment growth which, in order to materialise, needs to be supported by wage moderation.

The Council notes that the programme foresees a decline in the general government surplus from its exceptionally high level in 2000 to a level of somewhat above 2 % of GDP over the period 2002-2004. This must be seen in the light of the high surpluses reached in 2000 and 2001. The projected reduction in the surplus partly results from the strong downward revision of GDP growth. But it is also due, in 2002, to tax cuts and to higher than originally foreseeen spending, thus deviating from the medium-term central government spending ceilings. Such a deviation had also occurred in 2001. The Council recommends that the spending ceilings are firmly adhered to in coming years and that some of the lost ground is regained in the spring 2002 review of the spending ceilings. The Council, furthermore, welcomes the recent adoption of legislation requiring local governments to balance their budgets in the medium term. The Council recommends close surveillance of this regulation in order to ensure that its aims are achieved. In the light of Finland's particular exposure to expenditure pressures related to population ageing the Council considers it essential that high government surpluses are maintained in the medium term allowing the government debt ratio to decline at a sufficient pace.

The Council notes that the projected surplus in the government accounts is fully in line with the requirements of the stability and growth pact throughout the programme period. Moreover, the estimated cyclically adjusted government balance of more than 2 % of GDP should provide a sufficient safety margin against a breach of the 3 % of GDP reference value for the government deficit in normal cyclical fluctuations.

The Coucnil welcomes the updated stability programme's commitment to continued structural reforms. Planned government action to start the reform of the unemployment benefit system is welcome in the light of rising unemployment. Also, the planned reform is welcome in order to complement the favourable outcome of continued labour tax cuts aimed at reducing the current heavy overall tax burden on labour to boost employment creation. Further structural reforms in the private service sector and in the labour market would also support employment creation. Moreover, the reform of the pension system should be finalised as scheduled.

[1] OJ L 209, 2.8.1997, p. 1.