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(Information)

COUNCIL

COUNCIL OPINION

of 19 January 2001

on the updated convergence programme of Sweden, 2000 to 2003

(2001/C 73/01)

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 9(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 19 January 2001 the Council examined Sweden's updated convergence programme, which covers the period 2000 to 2003. The Council notes with satisfaction that the updated programme envisages continued government surpluses throughout the period to 2003 as the Swedish authorities maintain their-medium term objective of a budget surplus of 2 % of gross domestic product (GDP) on average over the business cycle. The strategy of lowering the expenditure ratio, aided by tight expenditure ceilings and a balanced budget requirement for local governments, is accompanied by a lowering of the tax ratio. The Council considers this budgetary strategy appropriate. The Council further notes with satisfaction that 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 remainder of the programme period.

The macroeconomic scenario presented in the programme, with GDP growth of 3,9 % and 3,5 % for the years 2000 and 2001, appears realistic but for the years 2002 and 2003 no forecasts are presented and the update assumes a cautious 2,1 % GDP growth, considered to be the trend growth rate.

The budgetary surpluses targeted in the updated programme provide a large enough safety margin for the general government balance not to breach the 3 % of GDP deficit reference value in normal circumstances. The Council considers that Sweden continues to comply with the requirements of the Stability and Growth Pact. Furthermore, the Council welcomes the attention given in the programme to the long-term sustainability of public finances. The Council notes that Sweden's strategy on this hinges on maintaining a surplus of 2 % of GDP over a period of 15 years. By lowering debt and interest payments this will make room to cover much of the costs of ageing to be faced in later years. The Council also encourages Sweden to pursue other routes to restrict expenditure, since the programme recognises that Sweden may have difficulties in maintaining a tax ratio that is markedly higher than in most other countries.

The Council notes that Sweden at present comfortably fulfils the convergence criterion on price stability and that the continued achievement of the domestic inflation target is likely to be consistent with the European Central Bank objective for price stability. Trends in Swedish long-term interest rates in recent years clearly reflect the favourable development of economic fundamentals, which is expected to continue in the future. Following from this, the spread of Swedish long-term

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

interest rates against euro rates has narrowed during 2000, and Sweden continues to fulfil the interest rate convergence criterion. Regarding the exchange rate, although the krona has displayed less volatility in recent years, the Council reiterates that Sweden needs to demonstrate its ability to stay in line with an appropriate parity between the krona and the euro over a sufficient period of time without severe tensions. To this end, the Council, as stated in its opinion on the updated 1999 convergence programme [1], expects Sweden to decide to join the ERM2 in due course.

In an environment of strong economic growth, continued wage moderation remains an important factor of stability and a moderate outcome of the wage negotiation round for 2001 and 2002 will be crucial in this respect. The indications are that new wage agreements should result in only slightly higher wage increases, but the risks are on the upside. In this context, the Council encourages Sweden to direct fiscal policy so that it supports monetary policy in the achievement of the inflation target, in line with the broad economic policy guidelines. While inflationary pressures have remained low in 2000 and are expected to be contained during 2001, there is a risk that the economy might overheat and threaten price stability if wage moderation were to weaken. In such a case, an expansionary fiscal stance in 2001 and 2002 would be inappropriate in the face of an economy where output is above or close to potential.

In order to obtain higher and sustainable economic growth, the strategy of previous programmes is continued and structural measures are being undertaken with a view to enhance the supply side of the economy. Among these measures, the lowering of the very high tax burden will provide better incentives to encourage people to work, consistent with the broad economic policy guidelines. The Council welcomes these structural measures and encourages the Swedish Government to continue these initiatives with determination and especially continue to reduce the high tax burden.

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[1] Council opinion of 31 January 2000 on the updated convergence programme of Sweden, 1999 to 2002 (OJ C 60, 2.3.2000, p. 5).