Procedure file

Basic information

INI - Own-initiative procedure	2002/2288(INI)	Procedure completed
Annual assessment of implementation of stability and convergence programmes Subject 5.10.01 Convergence of economic policies, public deficit, interest rates		

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs		27/11/2002
		PSE TRENTIN Bruno	

Council of the European Union	Council configuration	Meeting	Date
	Economic and Financial Affairs ECOFIN	2557	20/01/2004
	Economic and Financial Affairs ECOFIN	2520	15/07/2003
	Economic and Financial Affairs ECOFIN	2493	07/03/2003
	Economic and Financial Affairs ECOFIN	2485	18/02/2003
	Economic and Financial Affairs ECOFIN	2480	21/01/2003

Key events

21/01/2003	Debate in Council	2480	
13/02/2003	Committee referral announced in Parliament		
18/02/2003	Debate in Council	2485	
19/02/2003	Vote in committee		Summary
19/02/2003	Committee report tabled for plenary	A5-0047/2003	
07/03/2003	Debate in Council	2493	
11/03/2003	Debate in Parliament		
12/03/2003	Decision by Parliament	T5-0090/2003	Summary
12/03/2003	End of procedure in Parliament		
15/07/2003	Debate in Council	2520	
20/01/2004	Resolution/conclusions adopted by Council		

10/03/2004	Final act published in Official Journal		

Technical information

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Documentation gateway

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Document attached to the procedure		05318/2003 OJ C 026 04.02.2003, p. 0003-0005	21/01/2003	CSL	
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Document attached to the procedure		05320/2003 OJ C 026 04.02.2003, p. 0007-0008	21/01/2003	CSL	
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Document attached to the procedure		06440/2003 OJ C 051 05.03.2003, p. 0005-0006	18/02/2003	CSL	
Document attached to the procedure		06441/2003 OJ C 051 05.03.2003, p. 0007-0008	18/02/2003	CSL	
Committee report tabled for plenary, single reading		A5-0047/2003	19/02/2003	EP	
Document attached to the procedure		07099/2003 OJ C 064 18.03.2003, p. 0001-0002	07/03/2003	CSL	Summary
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		OJ C 064 18.03.2003, p. 0002-0003			
Text adopted by Parliament, single reading		T5-0090/2003 OJ C 061 10.03.2004, p. 0152-0299 E	12/03/2003	EP	Summary
Document attached to the procedure		08920/2003 OJ C 123 24.05.2003, p. 0001-0002	13/05/2003	CSL	Summary
Document attached to the procedure		11453/2003 OJ C 173 23.07.2003, p. 0001-0002	15/07/2003	CSL	Summary

Annual assessment of implementation of stability and convergence programmes

The Council examined the updated Stability and Convergence Programmes for Finland, Sweden, Greece, Italy, Germany and France in the context of the Stability and Growth Pact. The Council agreed the following Opinions and decided to place them in the public domain: - Sweden : the Council considers that the updated programme is consistent with the previous Council Opinion and the Broad Economic Policy Guidelines 2002. The Council notes with satisfaction that the updated Programme envisages continued government surpluses throughout the period to 2004 as Sweden maintains its medium term objective of a budget surplus of 2% of GDP on average over the business cycle. The Council welcomes the budgetary objective of running budget surpluses of 2% of GDP up to 2015 with a view to running down public debt at a fast pace. The Council considers that Sweden continues to fully respect the Stability and Growth Pact's requirement of a fiscal position close to balance or in surplus over the programme period. To this end, the Council considers that completing the tax reform and efforts to reach the key policy objectives regarding employment, social security recipients and days of sick-leave should be given high importance within the framework of sound public finances. - Finland : the Council considers that the updated programme is consistent with the Broad Economic Policy Guidelines (BEPG). The Council notes with satisfaction that the general government balance, which exceeded projections in 2001, is expected to remain clearly in surplus throughout the programme period. Furthermore, in spite of the higher than expected outcome in 2001, the general government debt to GDP ratio is projected to continue to decline, unlike in the previous programme, virtually every year during the programme period. The Council renews its recommendation from last year - along also the lines of the 2002 BEPGs - that the Finnish government reinforces its commitment to firmly control central government outlays over the medium term. The Council welcomes the attention given in the stability programme to the sustainability of public finances. The Council considers that on the basis of current policies, public finances appear to be on a sustainable footing to meet the budgetary costs of ageing populations, benefiting from the sustained running of budget surpluses, and a reformed pension system that has a high degree of pre-funding. The Council notes that the tax ratio in Finland is high compared with other industrialised countries. A major challenge will be to carry out the planned tax reforms, while safeguarding the achievements of the past decade of placing public finances on a sustainable path. - Greece : the programme partly conforms with the recommendations of the BEPGs. The 20012 update of the stability programme projects annual real GDP growth at around 3.8% in yearly average for the period 2003-2006 and marginally lower rates than the 2001 update for the period until 2004. The Council considers the projected real GDP growth as attainable, particularly until 2004 as economic activity will be underpinned by high private and public investment related to the preparation of the Olympic Games and sustained by the inflow of financial resources from the third Community Support framework. However, for growth to be sustained it is essential that fiscal policy remains tight and wage increases are based on labour productivity changes. The Council considers that the budgetary developments as portrayed in the revised data, in particular the slow pace of reduction in the government debt ratio, in a period when the Greek economy has been growing at high rates, is a matter of serious concern. The Council urges the Greek government to take advantage of the current favourable macroeconomic situation to undertake determined effort in order to implement a durable budgetary adjustment leading to an improvement in the underlying budgetary position and a satisfactory pace of debt reduction. Furthermore, the Council encourages the Greek authorities to promote supplementary privately-funded pension schemes and to take measures to raise participation rates and to control the evolution of age related expenditures. - Italy: the Council considers that the economic policies as reflected in the planned measures in the updated programme complies partly with the recommendations of the 2002 Broad Economic Policy Guidelines. The Council welcomes Italy's goal of keeping high primary surpluses throughout the programme period, while allowing for some easing in the tax burden. However, the Council takes note of the commitment of Italy to reach the objective of close to balance in 2004. More in general, the Council invites Italy to clarify its fiscal strategy, particularly in the light of the goal of reducing the tax burden, which the Council shares, but which can be safely and effectively achieved only within a comprehensive reform plan on both the expenditure and the revenue side. Moreover, the Council the Council encourages Italy to adopt further measures to promote supplementary privately-funded pension schemes and to address the outstanding critical issue in the public pension system, namely, the long transition period to the new contributions-based system. This should be coupled with the measures necessary to raise participation rates and to control the evolution of age-related expenditures. Germany : the Council noted that the projected deficit outcome for 2002 (3.75% of GDP) is clearly higher than projected in the lower-growth scenario of the December 2001 update (2.5 % of GDP). The Council regrets that it has proved not to be possible for the German authorities to fulfil their commitment of 12 February 2002 and the BEPG Recommendation for 2002 not to breach the 3% of GDP reference value for the general government deficit in 2002. The Council states, in a decision, the existence of an excessive budget deficit in Germany and issued a recommendation to Germany according to Art. 104(7) of the Treaty. According to this recommendation, the German government should put an end to the excessive deficit situation as rapidly as possible; the German authorities should implement with resolve their budgetary plans for 2003 which, on the basis of a GDP growth projection of 1.5 % in 2003, aim at reducing the general government deficit in 2003 to 2.75% of GDP. In addition, the Council noted the commitment of the German authorities to ensure that the momentum of budgetary consolidation is maintained throughout the period covered by the updated stability programme, namely through a reduction of the underlying budgetary deficit by more than 0.5%of GDP per year which in turn requires the introduction of structural reforms. The Council urges the German authorities to ensure that the implementation of the next steps of tax reform in 2004 and 2005 is compatible with a continuous adjustment path towards overall budget balance. The Council stresses again that the German economy, despite its large size, remains highly vulnerable to external shocks and unable to generate an endogenous and durable growth process. While acknowledging that this still partially reflects the economic consequences of German unification, the Council reiterates the need for urgent reforms not only in the labour market, but also in social security and benefit systems in general, and for a reduction in the regulatory burden of the economy. - France : the Council considers that the programme complies partly with the recommendations of the 2002 Broad Economic Policy Guidelines. The Council, having identified a significant divergence in 2002 budgetary developments from the projections of the 2001 update of the stability programme, and considering that this divergence is not corrected in the plans for 2003, adopted on 21 January 2003 a recommendation with a view to giving early warning to France in order to prevent the occurrence of an excessive deficit. According to this recommendation, the French government should take all the appropriate measures in order to ensure that the general government deficit does not breach the 3% of GDP threshold in 2003; adopt measures apt to improve the cyclically-adjusted budgetary position by at least 0.5 percentage point of GDP would not only reduce the risk for the general government deficit to breach the 3% of GDP threshold in 2003, but also contribute to resuming a budgetary consolidation path towards a close to balance position as from 2003; continuous adjustment in the underlying budgetary position by at least 0.5% of GDP per year should be pursued also in subsequent years in order to achieve the medium-term budgetary position of close to balance or in surplus by 2006. The Council welcomes the structural measures designed to curb expenditures in the health sector taken recently and the actions aiming at improving the control of budgetary execution in the State sector. It also welcomes the commitment to implement corrective infra-annual measures in the social security sector in the event of an evidence of overspending. The Council considers that these reforms should lead to a better adherence to the ex ante defined pluri-annual expenditure norms.?

Annual assessment of implementation of stability and convergence programmes

The Council has examined the updated Stability and Convergence Programmes for Belgium, Ireland, Spain, Denmark and the United Kingdom. The results are as follows; - BELGIUM : the Council considers that the economic policies as reflected in the Stability programme 2003-2005 comply partly with the recommendations of the Broad Economic Policy Guidelines. The impact of economic slowdown on public finances was contained in 2002 and the general government accounts reached balance after recording a surplus of 0.2% of GDP in 2001 (or a surplus of 0.4% of GDP if UMTS receipts are included). In 2001 and 2002, the decline in the government debt ratio continued, but reached only 3.5 percentage points of GDP, decelerating as a result of low GDP growth but also to debt-increasing financial operations. In 2002, the debt ratio was still at a high level, 106.1% of GDP. The Council notes with satisfaction that Belgium continues to be in conformity with the requirement of the stability and growth pact to reach a budgetary position of close to balance or in surplus in the medium term. The Council considers that the fiscal consolidation projections in the 2002 updated programme represent the minimum effort required in order to meet the challenge of a rapid reduction in the still very high debt ratio and to prepare for the budgetary implications of population ageing. The Council recommends to the Belgian authorities to seek every opportunity to realise further budgetary adjustment in 2003 and in subsequent years. The Council urges the Belgian authorities to maintain primary surpluses at around 6% of GDP per year and to continue to respect the limit of 1.5% per year on real primary expenditure growth for Entity I, over the period covered by the programme. To ensure the sustainability of public finances, debt reduction needs to be complemented with measures to raise employment rates, especially amongst older workers as the effective retirement age is one amongst the lowest of all EU countries. The Council notes with satisfaction the progress made in implementing structural reforms including draft legislation for setting up the framework for supplementary pensions, the simplification of administrative procedures for business activity and continued implementation of tax reform aimed at improving the performance of the economy and encouraging employment creation. The Council deems it important that the budgetary cost of structural reforms, notbaly those involving tax and non-tax burden reduction, be kept consistent with the targeted budgetary adjustment and the reduction of the government debt ratio be ensured. - IRELAND : the Council considers that the economic policies as reflected in the planned measures in the programme update broadly comply with the Broad Economic Policy Guidelines for 2002. The Council observes that the new programme further deepens and extends the downward shift in the projected path for the general government balance that was outlined in the previous programme. The actual balance is projected to continue to deteriorate in 2003 and 2004 (with the deficit rising to 0.7% and 1.2% of GDP respectively and the primary surplus falling to 0.9% and 0.3% of GDP). The deficit stabilises at 1.2% of GDP in the last year of the programme. The update reviews the government's structural reform programme, which focuses on lowering the tax burden, broadening the tax base, improving public services and addressing infrastructural needs through the further implementation of the National Development Plan. The Council welcomes the range of measures, outlined in the programme, to improve the management and control of public expenditure and urges the Irish authorities to supplement this with the development of a comprehensive norm-based framework to guide public spending in the medium term. With its low debt level and gradual build-up of assets in the National Pensions Reserve Fund, Ireland seems to be in a relatively strong position to cope with the budgetary impact of ageing populations. - SPAIN : the Council considers that the economic policies as reflected in the planned measures in the Stability programme 2002-2006 comply broadly with the 2002 Broad Economic Policy Guidelines. The Council notes that implementation in 2002 of the previous update has been broadly successful. Slightly weaker than expected growth and some primary expenditure overrun both contributed to a modest deficit of 0.2% of GDP (cyclically-adjusted on the basis of trend GDP, 0.3% of GDP). The debt ratio fell broadly in line with plans, reaching an estimated 55.2% of GDP at the end of 2002. Structural reform measures were implemented as planned and in accordance with the 2002 Broad Economic Policy Guidelines. The Council welcomes the fact that the updated programme gives greater weight compared with the previous update to the issue of the long-term sustainability of the public finances. It notes the commitment to achieve balanced budget positions leading to a continuous debt reduction as well as that some measures to increase employment rates and the incentives for active ageing and private pension schemes were taken. Finally, the Council welcomes recent initiatives for structural reform in the labour, capital and product markets. It recommends further progress in these areas to support employment-oriented and non-inflationary growth with lower inflation than recorded hitherto. - DENMARK : the Council states that the economic policies as reflected in the planned measures in the 2002-2010 Convergence programme comply with the 2002 Broad Economic Policy Guidelines and it considers it to be rich in information especially with regard to the amount of data provided for the analysis of medium- and long-term challenges of the Danish public finances and complies with the code of conduct. The Council notes with satisfaction that Denmark has continued to fulfil the convergence criteria on inflation, long-term interest rate, the exchange rate and public finances. The public finance strategy presented is largely unchanged from previous years and continues to have a strong focus on ensuring sustainable public finances in the medium-and long-term. The foundation for the strategy continues to be both the maintenance of general government surpluses in the order of 1.5-2.5% of GDP on average towards 2010 and the tax freeze, which is also intended to help ensure expenditure control. In order to obtain the budgetary targets stipulated in the medium term projection it is acknowledged by the Danish government in the programme that further labour market reforms are needed. The Council welcomes that the tax freeze has so far been implemented for all levels of government - a development which is in line with the Broad Economic Policy Guidelines. The Council notes with satisfaction that public finances in Denmark continue to remain healthy. The outcome for 2001 was better than expected. For 2002-2004 the update forecasts budget surpluses of 1.6, 1.9 and 2.4% of GDP, which is broadly in line with the Commission's estimates. For the rest of the period (2005-2010) the programme projects surpluses around 2% of GDP. The debt is expected to decrease from 44% of GDP in 2002 to 26% of GDP in 2010. The Council notes that also in underlying terms public finances should remain sound over the projection period with surpluses of around 2% of GDP. Denmark will therefore continue to comply fully with the requirements of the Stability and Growth Pact. The Council considers that on the basis of current policies, public finances appear to be on a sustainable footing to meet the budgetary costs of ageing populations. The Council notes the intention of the Danish authorities to reduce the tax ratio by 2010, and considers that this can be achieved while at the same time ensuring the sustainability of public finances. However, the tax ratio in Denmark will remain high compared to other industrialised countries, and consideration could be given to further reductions, in a framework of sound public finances. - UNITED KINGDOM : in its opinion adopted by qualified majority (Spain, Belgium and Denmark voting against), the Council considers that the economic policies envisaged in the Stability programme covering the period 2001-02 to 2007-08 comply in part with the 2002 Broad Economic Policy Guidelines. The convergence criteria on inflation and long term interest rates are fulfilled with some margin and the programme projects that the inflation target will continue to be achieved over the programme period. The Council notes, with approval, that the UK gross debt to GDP ratio is projected to remain relatively low at around 39% in 2003-04 and subsequently. The Council notes that the relatively high projected deficit of 2.2% of GDP in 2003-04 is based on GDP growth assumptions of 2.5% in 2003 and 3% in 2004 which now appear to be optimistic in light of global uncertainty. Therefore, such budgetary plans could lead to a deficit that could potentially breach the 3% of GDP reference value and, consequently, they would not be in line with the requirements of the Stability and Growth Pact. The projections show a low and stable level of the general government gross debt-to-GDP ratio from 2003-04. The Council notes that on the basis of current policies, ageing populations are projected to have a limited impact on public spending on pensions as a share of GDP. The Council considers that on current policies and the assumptions in the programme, the UK is well placed to meet the budgetary costs associated with ageing populations. The Council notes, however, that much of the financial sustainability of the pension system depends on the performance of private pension providers. If private provision produces significantly less than the anticipated coverage or level of pensions, future governments may face increased claims of means-tested benefits. Therefore, it considers that a budgetary position of a limited deficit in the medium term would help avoid any risk of emerging budget imbalances in the context of ageing populations and give greater assurance to the programme view that the public finances, based on current policies, are sustainable in the long-term. The Commission asked for the following Declaration to be included in the minutes of the Council: Since the UK's projections show a low and stable level of the general government gross debt-to-GDP ratio from 2003-04, well below the 60% of the GDP reference value and, on the basis of current policies, ageing populations are projected to have a limited impact on public spending, the Commission believes that the UK authorities could be allowed a small deviation from the balanced budget rules, but that they should ensure that the 3% deficit ceiling is not breached in any year. ?

Annual assessment of implementation of stability and convergence programmes

The committee adopted the own-initiative report by Bruno TRENTIN (PES, I) on the annual assessment of implementation of stability and convergence programmes. It said that the implementation of these programmes was "highly satisfactory" in most of the Member States and urged the others to follow this example. The report agreed with the Commission that the most adequate answer to the current economic slowdown was the Lisbon strategy as well as structural reforms by the Member States in such areas as the labour market, which had proved so inflexible in recent years as to become a major cause of unemployment. It called on the Member States to "proceed to an immediate and simultaneous implementation" of the priorities set down at the European Councils in Lisbon (2000) and Göteborg (2001), in particular reducing disincentives to work in some Member States, increasing public and private investment in education and training, research and innovation for products and processes and the development and application of new products and services. The committee also urged the Commission to put forward a plan of action to allow the candidate countries to join the Lisbon strategy process. Among its other recommendations, the report called for the Stability and Growth Pact to be scrupulously adhered to, and for all attempts to soften the Pact, thereby jeopardising the long-term stability of the European currency, to be resisted. It also called on the Heads of State and Government, at the forthcoming Spring Summit, to step up efforts to push ahead with the necessary structural reforms on the basis of an "unvarnished assessment", so as to ensure that more comes out of the ambitious Lisbon objectives than "a mere Utopian ideal".?

Annual assessment of implementation of stability and convergence programmes

In the context of the cycle of reviewing Member States' updated stability and convergence programmes, the Council examined a third package of stability programmes, relating to Luxembourg and Portugal. - LUXEMBOURG : as regards the Council's opinion on the updated stability programme of Luxembourg (2001-2005) : the programme does not fully comply with the requirements of the Code of Conduct on the content and format of the programmes endorsed by the ECOFIN Council on 10 July 2001; in particular it has been transmitted with a six-week delay. The programme partly conforms with the recommendations of the BEPGs. The Council notes that government finances deteriorated markedly in 2002 as revenues decelerated in response to the combined impact of the tax reform and the economic slowdown, while expenditure growth remained very strong. Consequently, the general government budget balance is expected to show a deficit of 0,3% of GDP in 2002, a sharp deterioration compared to the large surplus of 6,1% of GDP in 2001. The general government balance is projected to remain in deficit by 0,3% of GDP in 2003, to deteriorate slightly further in 2004 to a deficit of 0,7% of GDP, and to reach a position close to balance in 2005, with a slight nominal deficit of 0,1% of GDP. The underlying general government balance is expected to remain positive over the horizon covered by the stability programme. Consequently, the Council considers that Luxembourg continues to be in conformity with the requirement of the stability and growth pact to reach a budgetary position of close to balance or in surplus in the medium term. The Council notes that sound management of public finances continues to be the guiding principle of the 2002 update. In addition, the Council welcomes the main elements of the budgetary framework currently in place, which inter alia encompasses the use of cautious macro-economic projections as the basis for budgetary policy, as well as the principle to let net public sector lending be positive, to achieve a balanced budget for central government, and not to let the rise in current expenditure exceed the growth of total expenditure. The Council welcomes the reduction of the tax burden through the implementation of tax reform while aiming for a sound budgetary position in the medium term. In this context it encourages a future government to adhere to real expenditure ceilings that are compatible with achieving a budgetary position close to balance or in surplus in the medium term. However, the Council expresses some concern over the rapid deterioration of the budget balance of the central government, which only accounts for part of the general government sector. The balance of central government was still in surplus by 2,6% of GDP in 2001 but is projected to register a deficit of 2,2% of GDP in 2002 and of 2,1% of GDP in 2003, while the central government deficit is expected to deteriorate further to 2,8% of GDP in 2004 and 2005. The Council notes that this is partly due to revenue shortfalls in response to the economic slowdown, while central government expenditure is projected to increase rapidly; although the starting position of public finances in Luxembourg is extremely sound, a continued fast increase of current expenditure might become a factor of risk should economic growth in the medium term slow significantly. On the basis of current policies, the Council considers that public finances in Luxembourg are in a good position to meet the projected costs of an ageing population. However, the Council notes that the assessment of the sustainability of public finances in Luxembourg is very sensitive to developments as regards the number of cross-border workers. - PORTUGAL : as regards the Council's opinion on the updated stability programme of Portugal 2003-2006) : the updated programme projects general government finances to improve steadily, from a deficit of 2.8% of GDP in 2002 to a deficit of 0.5% of GDP in 2006. Government gross debt is expected to decrease from 58.8% of GDP in 2002 to 52.7% in 2006. The Council notes that the updated programme broadly complies with the requirements of the revised code of conduct on the content and format of stability and converge programmes. The updated programme was adopted by the government on 20 December and presented to parliament, which discussed it and adopted early in January a declaration of approval by a large majority, including the support of the main opposition party. The updated programme was then formally submitted to the Commission. The Portuguese authorities have thus effectively kept the commitment made to the Council on 5 November, in the framework of the recommendation under Article 104(7), to present before the end of the year an updated stability programme. The Council considers that the economic policies as reflected in the planned measures in the programme update broadly comply with the 2002 Broad Economic Policy Guidelines. On 5 November 2002, in the light of a government deficit of 4.1% of GDP in 2001, the Council decided that an excessive deficit existed in Portugal and issued a recommendation to Portugal according to Article 104(7) of the Treaty. In the terms of this recommendation, the Portuguese authorities were urged to implement with resolve their budgetary plans for 2002 which aim at reducing the deficit to 2.8% of GDP in that year. The Council established a deadline of 31 December 2002 for the Portuguese government to take all necessary measures to bring the excessive deficit to an end; adopt and implement the necessary budgetary measures to ensure that the government deficit in 2003 is further reduced clearly below 3% of GDP and that the government debt ratio is kept below the 60% of GDP reference value. The Council notes with satisfaction that, according to preliminary figures, the general government deficit has been reduced below 3% of GDP in 2002, in spite of weaker-than-anticipated growth. The Council acknowledges the firm resolve of the Portuguese government in pursuing budgetary consolidation. Budgetary developments in the further course of 2002 turned out less favourable than expected in the rectifying budget adopted in June, mainly due to the further weakening in economic activity, but also to lower-than-expected proceeds from sales of government property. As a consequence, and with a view to reducing the deficit as recommended by the Council, the Portuguese authorities adopted a number of one-off measures at the end of the year, which in total are estimated to have raised additional revenue of about 1.5% of GDP. The Council notes that substantial challenges remain in 2003 to achieve the deficit target of 2.4% of GDP and to put the deficit on a downward trajectory. The Council therefore urges the Portuguese authorities to ensure that the deficit remains well below 3% of GDP in 2003. The Council welcomes the Portuguese authorities intentions to bring the debt level down to 52.7% of GDP by 2006, unwinding the sharp deterioration registered between 2000 and 2002. On the basis of current policies, the risk of unsustainable public finances in the light of ageing populations cannot be excluded. If debt reduction is to make a noticeable contribution towards meeting the budgetary cost of ageing populations, then reaching a balanced position by 2006 is essential.?

Annual assessment of implementation of stability and convergence programmes

The European Parliament adopted a resolution based on its own-initiative report drafted by Bruno TRENTIN (PES, Italy) on the implementation of stability and convergence programmes. (Please refer to the document dated 19/02/03). Parliament stated that the economic policy guidelines to be considered at the Spring European Council must be more strongly geared to a medium-term oriented policy. The current economic slowdown underlines the need for an urgent re-think of the national economic policies in several Member States which will show positive results only in the medium and long term. There is a strong economic interdependence in the internal market, and in order to boost investments and carry out the structural reforms foreseen in the Lisbon process, an efficiently coordinated economic policy, implemented simultaneously throughout the EU, is the most effective way to overcome the growth crisis. Parliament stressed the necessity of improving budgetary surveillance by Member States, and of continuing to apply the Stability and Growth Pact flexibly. This must include, in countries with excessive budget deficits, continuously cutting back on net new indebtedness by 0.5% annually and holding it below the 3% threshold, as well as pursuing more consistently the overall indebtedness threshold of 60%. Parliament went on to state that recommendations and early warnings should henceforth be issued on the sole responsibility of the Commission, and that the Council should not have the right to vote on them. Although a multilateral surveillance of budgetary policies to reach convergence in the context of the Stability and Growth Pact is easier to implement in phases of national economic growth, it should also be carried out strictly in accordance with the Stability and Growth Pact in downturns. Those Member States which complied best with the Stability and Growth Pact in a favourable economic climate tend to perform better during a general slump. Finally, Parliament called for the Commission's evaluations and recommendations on the stability and growth programmes to be forwarded to Parliament in good time in order to give Parliament an appropriate say in the economic coordination process in the context of the Stability and Growth Pact.?

Annual assessment of implementation of stability and convergence programmes

The Council presents its opinion on the updated stability programme for Austria which covers the period 2003 to 2007. It notes that the submission was late as compared to the date required in the revised 'code of conduct on the content and format of stability and converge programmes', and therefore the update complies only partly with the requirement of the code. On the other hand, the Council notes with satisfaction that, in spite of lower-than-projected growth, government finances in 2001 improved more rapidly than expected, although this favourable result was brought about mainly by a strong increase in tax revenues. However, in 2002 government finances weakened noticeably and deviated from the target, reaching a deficit of 0,6 % in cyclically-adjusted terms according to Commission calculations. The Council also notes that the debt ratio which is above 60% of GDP reference value, increased substantially in 2001 and 2002, mostly due to a reclassification in the Austrian gross debt reporting. The budgetary projections of the programme are based on a macro-economic scenario expecting economic activity to gradually resume from its current cyclical weakness. Real GDP growth is forecast to accelerate from 1,0 % in 2002 to 2,5 % by 2005 and thereafter, amounting to annual average growth of 2,1 % over the entire programme period. Although somewhat above trend, the Council considers this growth outlook feasible, given that no significant macroeconomic imbalances prevail in the Austrian economy and provided that the external environment improves as projected. The Council regrets that the Austrian government will not reach its previous target of maintaining budgetary balance and moving to a small surplus in 2004 and 2005. Indeed, on the basis of current policies, the risk of unsustainable public finances in light of ageing populations can not be excluded. In this context, the Council welcomes the attention paid to longer-term issues, as demonstrated by the fundamental pension reform which is being prepared to tackle financial and economic pressures from population ageing. The Council strongly encourages the Austrian government to implement with determination the ambitious reform projects in the fields of pensions and health care, addressing many of the key problems in these areas. The Council emphasised repeatedly, also in its opinion on the last update and in the Broad Economic Policy Guidelines, the importance of raising the low effective retirement age in Austria and encouraging labour force participation, in particular of older workers and women. The Council notes the Austrian government's intention to reduce, as recommended, the high tax burden significantly. In particular, the Council invites the Austrian government to implement the reduction in non-wage labour cost, already postponed several times. The Council, therefore, considers that the expenditure cuts need to be implemented as planned. In addition, the envisaged tax relief ought to be accompanied by additional expenditure restraint in order to avoid the risk of budgetary slippage and to allow Austria to return earlier than foreseen to a budgetary position close to balance.?

Annual assessment of implementation of stability and convergence programmes

The Council examined the updated Stability Programme f the Netherlands for the period 2001-2007. In 2002 real GDP growth decelerated sharply to 0,2 %, from 1,3 % in 2001, well below the forecast included in the 2001 stability programme. Government finances deteriorated markedly in 2002, mainly in response to the economic slowdown. In 2002 the general government balance showed a deficit of 1,2 % of GDP, compared to a slight surplus of 0,1 % of GDP in 2001. HICP inflation decelerated to 3,9 % on average in 2002, from 5,1 % in 2001. The Council states that since the presentation of the initial 2002 updated stability programme in December 2002, the macroeconomic projections have been significantly revised downwards, with a negative impact on budgetary conditions. The Council notes that while the gradual but relatively muted economic recovery projected in the programme appears plausible, risks are clearly skewed to the downside and that the expected recovery is contingent on a pick-up in global demand and the successful restoration of the competitiveness of the Dutch market sector. The latter requires appropriate wage developments and an increase in the rate of productivity growth. The Council notes that in the central projection of the update the government balance is expected to deteriorate initially from a deficit equal to 1,2 % of GDP in 2002 to a 1,7 % deficit in 2004. A subsequent improvement is expected subsequently to reach a deficit of 0,5 % of GDP in 2007. The government debt ratio is expected to remain below the level of 60 % of GDP and to remain broadly stable, at around 52,5 % of GDP in the period 2002 to 2007. The Council welcomes the substantial consolidation effort entailed in the 2003 budget and in the coalition agreement of the new government for the period 2004 to 2007, which in cumulative terms amounts to 1,2 % of GDP in 2003, 1,7 % of GDP in 2004 and up to close to 3 % of GDP in 2007. Against the background of a steeper economic downturn than previously expected, budgetary policies are expected to lead to an improvement in the cyclically adjusted general government balance by 1 % of GDP between 2002 and 2005. A position close to balance in cyclically adjusted terms would be reached in 2005 and maintained in the two subsequent years. The Council considers that with the full implementation of the consolidation measures announced by the new government and given normal macroeconomic fluctuations, a safety margin is provided not to breach the 3 % of GDP deficit threshold. As far as the projected changes in the cyclically adjusted general government balance are concerned, the Council regrets that in 2003 and 2004 the path of adjustment falls short of the requirement to reduce the cyclically adjusted deficit by at least half a percentage point in each year, albeit not by a wide margin. The Council recommends the Dutch authorities to implement as planned the announced measures, which amount to 0,5 % of GDP in 2004. Given the downside risks attached to the growth projections, the Council notes that additional measures might be needed to ensure that a budgetary position close to balance or in surplus would be maintained in the medium term. Lastly, the Council considers that on the basis of current policies, the Netherlands appear to be in a relatively goodposition to meet the budgetary costs associated with ageing. The debt to GDP ratio will continue to decline in coming years. However, a slight reverse trend of the debt to GDP ratio in the long run cannot be excluded. To avoid the risk of imbalances in the long run, it would be necessary to fully implement the "Global Agreement", in particular as regards the reforms in the social insurance sector that aim at increasing participation rates and the effective retirement age. The Council considers that achieving in the longer-term a surplus budgetary position would contribute to ensuring the sustainability of government finances in the Netherlands.?