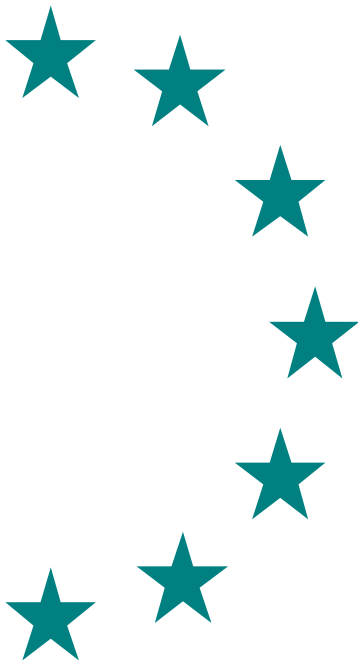


N° 3/2002

EUROPEAN ECONOMY

EUROPEAN COMMISSION

DIRECTORATE-GENERAL FOR ECONOMIC
AND FINANCIAL AFFAIRS



**Opinion on the content and format
of stability and convergence
programmes (2001 code of
conduct)**

**Extract of [European Economy 3/2002](#).
[Public finances in EMU](#)**

1. Opinion on the content and format of stability and convergence programmes ⁽¹⁾ (2001 code of conduct)

This opinion updates and replaces the opinion of 12 October 1998 of the Monetary Committee to the Council. The Stability and Growth Pact entered fully into force on 1 January 1999. It requires Member States to submit stability or convergence programmes which are at the basis of the Council's strengthened surveillance of budgetary positions and its surveillance and coordination of economic policies. The Commission's and the Council's role is considerably enhanced by the pact. The Council, on a recommendation from the Commission, and after consulting the Economic and Financial Committee, delivers an opinion on each programme and if it considers that its objectives and contents should be strengthened, it invites the Member State concerned to adjust its programme.

A fundamental element of the stability and convergence programmes is the medium-term objective for the budgetary position of close to balance or in surplus (see Articles 3(2) and 7(2) of the regulation). The Amsterdam European Council declared in its resolution of 17 June 1997: 'adherence to the objective of sound budgetary positions close to balance or in surplus will allow all Member States to deal with normal cyclical fluctuations while keeping the government deficit within the reference value of 3 % of GDP'. It is therefore clear that the assessment of the appropriateness of Member States' medium-term objectives and the examination of their fulfillment have to take explicit account of the cyclical position and its effect on the budget. Cyclically-adjusted balances should continue to be used, in addition to non-

inal balances, as a tool when assessing the budgetary position.

The time frame for interpreting the medium term would be the length of the business cycle. In practice, one has to adopt an approximate approach when assessing how actual and expected budgetary developments compare with the requirement of medium-term budgetary positions close to balance or in surplus. In particular, one has to assess the likely impact of cyclical effects on current and future developments in budgets. This exercise requires some kind of method.

Obviously, each method has its strengths and weaknesses and therefore its results need to be interpreted with caution. Bearing this in mind, the Committee for the time being and pending further analysis of alternative methods, takes the present Commission services' cyclical adjustment method as a useful approach for assessing the budgetary position. Using that method, the Commission estimated 'minimal benchmarks' to allow for a sufficient cyclical margin under the 3 % reference value. The Commission may continue using, where relevant, these 'minimal benchmarks' as an additional working instrument, but not as a target per se according to the Stability and Growth Pact. The pact should not be changed. The medium-term budgetary position which respects the close-to-balance-or-in-surplus rule of the Stability and Growth Pact has to take account of several elements, as described in the appendix under 'objectives'.

⁽¹⁾ Revised opinion of the Economic and Financial Committee on the content and format of the stability and convergence programmes, endorsed by the Ecofin Council on 10 July 2001.

The Committee considers that since 1999 the stability and convergence programmes and their annual updates have been instrumental to the consolidation of public finances. To complete this process, it is important to prevent the medium-term budgetary position of close to balance or in surplus from becoming a moving target. The programmes should show the medium-term objective of the Stability and Growth Pact as being achieved and maintained in accordance with the budgetary recommendations in the broad economic policy guidelines.

In view of the fundamental role of the stability and convergence programmes in the process of multilateral surveillance, it is important that their information content is suitable and allows for comparison across Member States. Whilst acknowledging that the programmes are the responsibility of national authorities and that the possibilities and practices differ across countries, Council Regulation (EC) No 1466/97 sets out the essential elements of these programmes.

The Economic and Financial Committee considers that these essential requirements might usefully be incorporated into the guidelines on the content and format of the programmes developed in the 'code of conduct' presented in the Monetary Committee's opinion endorsed by the Council on 12 October 1998. The experience gathered during the first three years of implementation of the pact with the stability and convergence programmes shows that such guidelines not only assist the Member States in drawing up their programmes, but also facilitate their examination by the Commission, the Economic and Financial Committee and the Council. Building on such experience, and drawing upon useful contributions by Commission staff, the Committee has discussed possible improvements and complementary guidelines and agreed upon the suggestions set out in the appendix to this opinion. These are indicative and may be developed further over time, building upon the best practice emerging.

Appendix

Format and content of stability and convergence programmes

Status of guidelines

The Economic and Financial Committee proposes that the guidelines set out in this paper should be adopted as a code of good practice and checklist to be used by Member States in preparing stability or convergence programmes. This will facilitate the examination and discussion of the programmes.

The Committee suggests that the guidelines be followed as far as possible, and any departure would have to be justified by the Member States concerned.

Political commitment

In accordance with the provisions of Council Regulation (EC) No 1466/97 ⁽¹⁾ the Member States will submit stability or convergence programmes or updates. It is therefore clear that the governments assume responsibility for them. Each programme might usefully indicate its status in the context of national procedures, notably with respect to the national parliament. In particular, the state of implementation of the measures presented in the programme should be indicated.

Status of data

The status of the quantitative information in the programmes should be clearly established. In order to facilitate assessment, the concepts used should be in line with the standards established at European level, notably in the context of the European system of accounts. This information may be complemented by a presentation of specific accounting concepts that are of particular importance to the country concerned.

Content

Articles 3 and 7 set out the basic information to be covered by stability and convergence programmes.

Objectives

The programmes should present the medium-term objective for the budgetary position of close to balance or in surplus and, where appropriate, the adjustment path to it, as well as the projected path for the debt ratio (Articles 3(2a) and 7(2a)). The objectives of the SCP updates should be consistent with the budgetary recommendations of the broad economic policy guidelines.

The time frame for interpreting the medium term would be the length of the business cycle. The medium-term budgetary position which respects the close-to-balance-or-in-surplus rule of the SGP has to take account of several elements, such as the possibility to deal with adverse cyclical developments and other unforeseen risks whilst respecting the government deficit reference value, the need to take account of other sources of variability and uncertainty in budgets, and the need to ensure a rapid decline in high debt ratios. Furthermore, appropriate medium-term budgetary targets, consistent with the general and country-specific recommendations in the BEPGs, should also take into account the need to cater for the costs associated with population ageing. Important budgetary consequences of measures aimed at improving the quality of public finances should also be considered. Moreover, Member States that would wish to make use of discretionary policy should create the necessary room for manoeuvre.

Member States should specify and explain the factors underpinning their choice of the medium-term budgetary objectives. Where appropriate, government investment objectives might be specified.

Convergence programmes shall also present the medium-term monetary policy objectives and their relationship to price and exchange-rate stability.

To permit a fuller understanding of the paths of the government balance and the debt ratio and of the budgetary strategy in general, information should be provided on

⁽¹⁾ The articles referred to in this appendix are the articles of Council Regulation (EC) No 1466/97.

expenditure and revenue ratios and on their components separately identified, as well as on factors influencing the debt ratio, such as privatisation receipts, interest payments and others. Obviously, the further forward the year considered, the less accurate the information will be.

The budget balances should be broken down by sub-sector of general government (central government, local authorities, social security).

The information requirements should be presented following a standardised set of tables agreed by the Economic and Financial Committee (Annex 1). The tables distinguish between information requirements which follow from the Stability and Growth Pact and the code of conduct (bold characters), and other information which is optional but highly desirable. The tables could be complemented by further information wherever deemed useful by Member States.

In preparing the programme updates, Member States are invited to follow the model structure for the programmes annexed to this opinion (Annex 2).

The standardisation of the format and content of the programmes along the lines set by the code of conduct will substantially improve the conditions for equality of treatment.

Assumptions

The programmes should present the main assumptions about expected economic developments and important economic variables which are relevant to their realisation such as government investment expenditure, real GDP growth, employment and inflation (Articles 3(2b) and 7(2b)). The assumptions on real GDP growth should be underpinned by an indication of the expected sources of growth. The possible upside and downside risks to the outlook should be brought out. Furthermore, the programmes should provide sufficient information about GDP developments to allow an analysis of the cyclical position of the economy. The growth projections and associated factors underlying the programmes should be clearly specified in a standardised table (see Table 1 in Annex 1) and the Commission should draw attention to any significant differences from their own projections, the Member State concerned standing ready to justify its projections.

Member States should endeavour to use either common basic assumptions on the main extra-EU variables or, for

comparability reasons, present sensitivity analysis based on the common assumptions for these variables where these differences are significant. The assumptions are to be provided by the Commission (after consultation with national experts), on the basis of the table in Annex 3, for discussion by the EFC in June/July each year.

Member States should transmit to the EFC and the Commission, together with the programme update, their basic assumptions (including purely technical assumptions on interest rates and exchange rates), presented on the basis of the table in Annex 3, and, if needed and not included in the SCP updates, the sensitivity analysis mentioned above.

Reflecting the general point made above on the standardisation of quantitative information presented in the tables, inflation assumptions should be presented in terms of the GDP deflator and, if a Member State considers it useful, the harmonised index of consumer prices (HICP).

Measures

The programmes should describe the budgetary and other economic policy measures being taken or proposed to achieve the objectives of the programme, and, in the case of the main budgetary measures, an assessment of their quantitative effects on the budget (Articles 3(2c), 7(2c), 5(1) and 9(1)). The measures should be consistent with the broad economic policy guidelines. Measures having significant 'one-off' effects should be explicitly identified.

Member States have committed themselves to take the corrective action they deem necessary to meet the objectives of their stability or convergence programmes, whenever they have information indicating actual or expected significant divergence from those objectives. Structural reforms should be covered where they could contribute to the achievement of objectives of the programmes. Spill-over effects on other Member States should be dealt with by the Commission in its analysis, which does not preclude the Member States from dealing with these effects in their programmes. The programmes should describe, in summary form, measures introduced to improve expenditure control, tax collection efficiency, and other measures aimed at improving the quality of public finances, also taking into account of recommendations of the broad economic policy guidelines on this issue. Where appropriate, the programmes should

also indicate other possible institutional reforms especially in the budget process.

Furthermore, the programmes should outline the countries' strategies and provide summary information on the countries' short- to medium-term concrete measures to tackle the longer-term budgetary implications of ageing.

Sensitivity analysis

The programmes shall provide an analysis of how changes in the main economic assumptions would affect the budgetary and debt position (Articles 3(2d) and 7(2d)). This analysis should be complemented by a sensitivity analysis of the impact of different interest rate assumptions on the budgetary and debt position. In addition, countries which do not use common external assumptions should endeavour to provide a sensitivity analysis also on main extra-EU variables, where differences are significant (see paragraph on assumptions).

Time horizon

The information about paths for the general government surplus/deficit ratio and debt ratio and the main economic assumptions shall be on an annual basis and shall cover, as well as the current and preceding year, at least the three following years (Article 3(3) and Article 7(3)), leaving it open to Member States to cover a longer period if they so wish.

Given the impact of longer-term demographic developments on the sustainability of public finances, information over a longer period should be included in the annual

updates of the programmes in summary form. However, more detailed information should be included and updated regularly, at least every three years, where Table VII.6 of Annex 1 could serve as a useful framework.

Updating of programmes

In order to promote the efficiency of the budgetary and economic surveillance and achieve a better interaction between different procedures, submissions of SCP updates should take place shortly after national governments have presented their budget proposals to parliaments, but not earlier than mid-October and not later than 1 December ⁽¹⁾ ⁽²⁾ ⁽³⁾. This should increase the comparability of the programmes, the consistency of the assessments and the equality of treatment. The EFC and the Ecofin should examine the SCP updates in a maximum of two sessions each, possibly by December/January. The whole process should in any case be completed before the end of February each year.

Annual updates of stability and convergence programmes should show how developments have compared with the programme objectives. When substantial deviations occur, the update should include the steps to be taken to rectify the situation.

(1) While Ireland expects to be able to comply with this schedule as from 2002, the date of its next budget and publication of its stability programme has already been set for 5 December 2001.

(2) In the case of the UK, which has a different fiscal year, submission should be as close as possible to the presentation of the autumn pre-budget report.

(3) Austria and Portugal cannot comply at this stage with this schedule, but they will submit their budget proposals no later than 15 December.

Annex 1

Tables to be contained in the SCP updates

*Provision of data on variables in bold characters is a requirement.
Provision of data on other variables is optional but highly desirable.*

Table 1

Growth and associated factors

	ESA code	Year X – 1	Year X	Year X + 1 (¹)	Year X + 2 (²)	Year X + 3 (²)
GDP growth at constant market prices (7 + 8 + 9)	B1g					
GDP level at current market prices	B1g					
GDP deflator						
HICP change						
Employment growth (³)						
Labour productivity growth (⁴)						
Sources of growth: percentage changes at constant prices						
1. Private consumption expenditure	P3					
2. Government consumption expenditure	P3					
3. Gross fixed capital formation	P51					
4. Changes in inventories and net acquisition of valuables as a % of GDP	P52 + P53					
5. Exports of goods and services	P6					
6. Imports of goods and services	P7					
Contribution to GDP growth						
7. Final domestic demand (1 + 2 + 3)						
8. Change in inventories and net acquisition of valuables (= 4)	P52 + P53					
9. External balance of goods and services	B11					

(¹) Forecasts.

(²) Trend values or period averages.

(³) Occupied population, domestic concept, persons, national accounts definition.

(⁴) Growth of GDP at market prices per person employed at constant prices.

Table 2

General government budgetary developments

	% of GDP	ESA code	Year X - 1	Year X	Year X + 1	Year X + 2	Year X + 3
Net lending (B9) by sub-sectors							
1. General government		S13					
2. Central government		S1311					
3. State government		S1312					
4. Local government		S1313					
5. Social security funds		S1314					
General government (S13)							
6. Total receipts		ESA					
7. Total expenditures		ESA					
8. Budget balance		B9					
9. Net interest payments							
10. Primary balance							
Components of revenues							
11. Taxes		D2 + D5					
12. Social contributions		D61					
13. Interest income		D41					
14. Other							
15. Total receipts		ESA					
Components of expenditures							
16. Collective consumption		P32					
17. Social transfers in kind		D63					
18. Social transfers other than in kind		D62					
19. Interest payments		D41					
20. Subsidies		D3					
21. Gross fixed capital formation		P51					
22. Other							
23. Total expenditures		ESA					

Table 3

General government-debt developments

	% of GDP	ESA code	Year X - 1	Year X	Year X + 1	Year X + 2	Year X + 3
Gross debt level							
Change in gross debt							
Contributions to change in gross debt							
Primary balance							
Interest payments		D41					
Nominal GDP growth		B1g					
Other factors influencing the debt ratio							
Of which: Privatisation receipts							
p.m. implicit interest rate on debt							

Table 4

Cyclical developments ⁽¹⁾

% of GDP	ESA code	Year X - 1	Year X	Year X + 1	Year X + 2	Year X + 3
1. GDP growth at constant prices	B1g					
2. Actual balance	B9					
3. Interest payments	D41					
4. Potential GDP growth						
5. Output gap						
6. Cyclical budgetary component						
7. Cyclically-adjusted balance (2 - 6)						
8. Cyclically-adjusted primary balance (7 - 3)						

⁽¹⁾ Member States can fill-in lines 4-8 using either own figures or Commission figures.

Table 5

Divergence from previous update

% of GDP	ESA code	Year X - 1	Year X	Year X + 1	Year X + 2	Year X + 3
GDP growth						
previous update	B1g					
latest update	B1g					
Difference						
Actual budget balance						
previous update	B9					
latest update	B9					
Difference						
Gross debt levels						
previous update						
latest update						
Difference						

Table 6

Long-term sustainability of public finances ⁽¹⁾

% of GDP	2000	2005	2010	2020	2030	2050
Total expenditure						
Old-age pensions						
Healthcare (including care for the elderly)						
Interest payments						
Total revenues						
of which: from pensions contributions						
National pension fund assets (if any)						
Assumptions						
Labour productivity growth						
Real GDP growth						
Participation rate males (aged 20–64)						
Participation rates females (aged 20–64)						
Total participation rates (aged 20–64)						
Unemployment rate						

⁽¹⁾ Information in this table, if provided, should be updated at least every three years.

Annex 2

Model structure for the stability and convergence programmes

1. Overall policy framework and objectives

- Comparison with previous update

2. Economic outlook

(on the basis of Table VII.1)

- Cyclical developments and current prospects
- Medium-term scenario

3. General government balance and debt

(on the basis of Tables VII.2, VII.3, VII.4)

- Policy strategy
- Actual balances and implications of forthcoming budget
- Structural balance and fiscal stance (optional)
- Debt levels and developments
- Medium-term objectives
- Balance by sub-sectors of general government

4. Sensitivity analysis and comparison with previous update

(on the basis of Table VII.5)

- Alternative scenarios and risks
- Sensitivity of budgetary projections to different scenarios and assumptions

5. Quality of public finances

(on the basis of Table VII.2)

- Policy strategy
- General government expenditure
Actual developments and the budget for next year
Medium-term trends
- General government revenue
Actual developments and the budget for next year
Medium-term trends

6. Sustainability of public finances

(on the basis of Table VII.6)

- Policy strategy
- Long-term budgetary prospects, including the implications of ageing populations

7. Horizontal issues affecting public finances

- Budgetary implications of structural reforms
- Institutional developments, in relation with public finances
- Spill-over effects on other Member States (optional)

Annex 3

Table 7

Basic assumptions ⁽¹⁾

(to be transmitted to the EFC and the Commission together with the SCP update ⁽²⁾)

	Year X - 1	Year X	Year X + 1	Year X + 2	Year X + 3
Short-term interest rate ⁽³⁾ (annual average)					
Long-term interest rate ⁽³⁾ (annual average)					
United States: short-term (three-month money market)					
United States: long term (10-year government bonds)					
USD/EUR exchange rate ⁽³⁾ (annual average)					
Nominal effective exchange rate (euro area)					
Nominal effective exchange rate (EU)					
(for non-euro countries) exchange rate vis-à-vis the EUR (annual average) ⁽³⁾					
World GDP growth, excluding EU					
United States , GDP growth					
Japan, GDP growth					
EU-15 GDP growth					
Growth of relevant foreign markets					
World import volumes, excluding EU					
World import prices, (goods, in USD)					
Oil prices, (Brent, USD/barrel)					
Non-oil commodity prices (in USD)					

⁽¹⁾ Provision of data on variables in bold characters is a requirement. Provision of data on other variables is optional but highly desirable.

⁽²⁾ Member States may include their basic assumptions in their SCP updates if they so wish.

⁽³⁾ Purely technical assumptions.