

Box 9

FISCAL SUSTAINABILITY IN STABILITY PROGRAMMES: ASSESSMENT IN ECOFIN COUNCIL OPINIONS

ECOFIN Council opinions released in 2006 state that most euro area member countries are subject to medium or high sustainability risks. Population ageing will lead to higher pension, health care and long-term care expenditure as early as the next decade. Additional public expenditure in these three categories is expected to amount to about 3% of GDP on average for the euro area by 2030, and in some countries to significantly more, according to the report on population ageing by the European Commission and the EU's Economic Policy Committee (see Box 9 in the March 2006 issue of the Monthly Bulletin). Moreover, existing fiscal imbalances and high debt ratios increase the risk to fiscal sustainability. All these factors together point to significant adjustment needs in most euro area countries in the medium term so as to secure the sustainability of public finances.

The ECOFIN Council opinions, therefore, rightly emphasise the need to address the risks to sustainability and the issue of ageing-induced expenditure (see table). Reforms in the area of

pensions, health care and long-term care are needed in many countries. As mentioned above and confirmed in the Council opinions, such reforms must be accompanied by determined action to implement adequate and lasting adjustments of the budget balance and to ensure a sufficiently declining debt ratio. The current growth outlook and the shrinking window of opportunity before ageing-induced expenditure builds up underpin the need to strengthen consolidation and implement reform without delay.

Fiscal sustainability in stability programmes: assessment in ECOFIN Council opinions

	Risk to sustainability			Advice on long-term challenge
	Overall risk assessment	Debt	Budget position	
Belgium	Medium risk due to budgetary costs of ageing population	Debt far above 60% but diminishing sufficiently and at a rapid pace	Sound	Maintain primary surpluses in coming years.
Germany	Medium risk due to budgetary costs of ageing population	Debt above 60% and may not be diminishing sufficiently	High structural deficit	Rigorously implement strong budgetary consolidation.
Greece	High risk due to budgetary costs of ageing population, mainly from pension system	Debt far above 60% but diminishing sufficiently	Broadly on track to correct its excessive deficit	Rigorously implement the planned consolidation and pension reform and carry out additional structural reforms.
Spain	Medium risk due to budgetary costs of ageing population, mainly from pension system	Debt well below 60%	Sound	Implement the announced social welfare reform to contain the budgetary cost of ageing.
France	Medium risk due to budgetary costs of ageing population	Debt above 60% and may not be diminishing sufficiently	High structural deficit	Ensure structural adjustment of the budget balance.
Ireland	Medium risk due to budgetary costs of ageing population, mainly from pension system	Debt well below 60%	Sound	Continue to implement measures to address long-term budgetary implications of population ageing.
Italy	Medium risk due to budgetary costs of ageing population, mainly from pension system	High level of debt, above 60%	Weak budgetary position	Achieve the structural efforts envisaged so as to correct excessive deficit and ensure that debt declines at a more rapid pace.
Luxembourg	Medium risk due to budgetary costs of ageing population, mainly from pension system	Very low debt	Achieve medium-term objective by 2008	Strengthen the effort of budgetary adjustment and improve long-term sustainability via pension system reform.
The Netherlands	Medium risk due to budgetary costs of ageing population, mainly from pension system	Debt below 60%	Sound	Maintain a strong budgetary position in 2006 and thereafter.
Austria	Low risk due to budgetary costs of ageing population	Debt above 60%, seems to be diminishing sufficiently	Achievement of medium-term objective in 2008 is at risk	Implement budget consolidation.
Portugal	High risk due to budgetary costs of ageing population, from pension and health care system	High level of debt, above 60%	Weak budgetary position	Adopt and implement the structural measures envisaged in the programme and further reforms in the area of pensions and health care.
Finland	Low risk due to budgetary costs of ageing population	Debt below 60%	Sound	Budgetary strategy is in line with the Stability and Growth Pact.

Source: ECOFIN Council opinions on the stability programmes, 2006.