COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 30/01/2008
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Recommendation for a

COUNCIL OPINION

in accordance with the third paragraph of Article 5 of Council Regulation (EC) No 1466/97 of 7 July 1997

On the updated stability programme of Italy, 2007-2011

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. GENERAL BACKGROUND

The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation. The 2005 reform of the Pact acknowledged its usefulness in anchoring fiscal discipline but sought to strengthen its effectiveness and economic underpinnings as well as to safeguard the sustainability of the public finances in the long run.

Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], which is part of the Stability and Growth Pact, stipulates that each Member State has to submit, to the Council and the Commission, a stability or convergence programme and annual updates thereof. Member States that have already adopted the single currency submit (updated) stability programmes and Member States that have not yet adopted it submit (updated) convergence programmes. The first stability programme of Italy was submitted in December 1998. In accordance with the Regulation, the Council delivered an opinion on it on 8 February 1999 on the basis of a recommendation from the Commission and after having consulted the Economic and Financial Committee. As regards updated stability and convergence programmes, the regulation foresees that these are assessed by the Commission and examined by the Committee and if necessary and following the same procedure as set out above, the updated programmes may be examined by the Council.

2. BACKGROUND FOR THE ASSESSMENT OF THE UPDATED PROGRAMME

The Commission has examined the most recent update of the stability programme of Italy, submitted on 30 November 2007, and is recommending a Council opinion on it (see box for the main points covered by the assessment).

In order to set the scene against which the budgetary strategy in the updated stability programme is assessed, the following paragraphs summarise:

(1) the country's position under the corrective arm of the Stability and Growth Pact (excessive deficit procedure)

(2) the most recent assessment of the country's position under the preventive arm of the Stability and Growth Pact (summary of the Council opinion on the previous update of the stability programme)

(3) the orientations for budgetary policies adopted by the April 2007 Eurogroup

(4) the March 2007 update of the country-specific broad economic policy guidelines in the area of budgetary policies

[1] OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text are available at: http://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm.

(5) the Commission's assessment of the October 2007 implementation report of the national reform programme.

2.1. The excessive deficit procedure for Italy

On 28 July 2005 the Council adopted a decision stating that Italy had an excessive deficit in accordance with Article 104(6). At the same time, the Council addressed a recommendation under Article 104(7) specifying that the excessive deficit had to be corrected by 2007. In particular, Italy was recommended to implement with rigour the 2005 budget; reduce the structural deficit by a minimum 1.6% of GDP by 2007 relative to its level in 2005, with at least half of this correction taking place in 2006; and ensure that the debt-to-GDP ratio diminishes and approaches the reference value at a satisfactory pace.

On 22 February 2006, the Commission adopted a communication concluding that the actions taken by Italy, if fully implemented and effective, would be consistent with the Council recommendation, so that no further steps under the EDP were deemed necessary. The communication specified that persisting implementation uncertainties required continuous monitoring. In its March 2006 meeting, the Council concurred with this assessment.

2.2. The assessment in the Council opinion on the previous update

In its opinion of 27 February 2007, the Council summarised its assessment of the previous update of the stability programme, covering the period 2006-2011, as follows. "The Council considers that the programme is consistent with a correction of the excessive deficit by 2007, subject to the full and effective implementation of the 2007 Budget. After 2007, the planned adjustment is in line with the requirements of the Stability and Growth Pact and would allow reaching the MTO by the end of the programme period. However, no details are given on the adjustment strategy, which itself represents a risk for the achievement of the budgetary targets after 2007 and hinders a proper assessment of the consolidation strategy."

In view of its assessment, the Council invited Italy to:

"(i) achieve the planned fiscal consolidation in 2007 so as to correct the situation of excessive deficit in line with the Council recommendation under Article 104(7);

(ii) take advantage of better than expected budgetary developments for deficit reduction and ensure, after the excessive deficit has been corrected, adequate progress towards the MTO so as to achieve it by the end of the programme period at the latest and ensure that the debt-to-GDP ratio is reduced accordingly;

(iii) in view of the very high level of debt, fully implement the adopted pension reforms including the planned periodical actuarial adjustment in line with life expectancy so as to avoid significant increases in age-related spending; and

(iv) improve the budgetary process by increasing its transparency, specify in greater detail the budgetary measures with a longer time perspective and effectively implementing mechanisms to monitor and control expenditure, especially health care expenditure."

2.3. Orientations for budgetary policies adopted by the Eurogroup in April 2007

On 20 April 2007, with a view to improving the coordination of fiscal policies in the euro area, Eurogroup ministers discussed national budgetary developments in 2007 and the preliminary policy outlook for 2008 and their implications for the euro area.

Reaffirming their adherence to the sound fiscal policy principles of the revised Stability and Growth Pact and to national fiscal rules, Ministers committed to (i) build on the better-than-expected budgetary outcomes in 2006 to pursue more ambitious budgetary targets than those set in the end-2006 updates of the stability programmes; (ii) implement their 2007 budgets as planned, avoiding expenditure overruns, and using unexpected extra revenues to reduce government deficit and debt; and (iii) carefully design fiscal policy plans for 2008 so as to accelerate the adjustment towards the MTO for Member States which have not reached it and for those which have reached it to avoid feeding macroeconomic imbalances overall[2].

2.4. March 2007 update of the country-specific broad economic policy guidelines in the area of budgetary policies

On 27 March 2007, the Council adopted a recommendation on the 2007 update of the broad guidelines for the economic policies of the Member States and the Community and on the implementation of Member States' employment policies[3]. In the area of budgetary policies, Italy was recommended to “rigorously pursue fiscal consolidation so as to put the debt-to-GDP ratio on a declining path and fully implement the pension reforms with a view to improving the long-term sustainability of public finance”. Italy was also encouraged to focus on “effective measures to improve the sustainability of healthcare provision, while preserving quality and accessibility”. In addition, all euro area Member States were recommended to “make use of the favourable cyclical conditions to aim at or pursue ambitious budgetary consolidation towards their medium-term objectives in line with the Stability and Growth Pact, hence striving to achieve an annual structural adjustment of at least 0.5 % of GDP as a benchmark” and “to improve the quality of public finance by reviewing public expenditures and taxation, with the intention to enhance productivity and innovation, thereby contributing to economic growth and fiscal sustainability”.

2.5. The Commission assessment of the October 2007 implementation report of the national reform programme

On 11 December 2007, the Commission adopted its Strategic Report on the renewed Lisbon strategy for growth and jobs, which includes an assessment of the October 2007 implementation report of Italy’s national reform programme.[4] This can be summarised as follows.

Italy’s national reform programme identifies the following key challenges/priorities: ensuring long-term fiscal sustainability; extending the area of free choice for citizens and companies;

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2 The entire statement can be found at: www.gouvernement.lu/salle_presse/actualite/2007/04/20pm_krecke_berlin/MTBR_EG_conclusions-finalCLEAN.rtf

3 OJ L 92, 3.4.2007, p. 23.

4 Communication from the Commission to the European Council, “Strategic report on the renewed Lisbon strategy for growth and jobs: launching the new cycle (2008-2010)”, 11.12.2007, COM(2007)803.

granting incentives for scientific research and technological innovation; strengthening education and training; upgrading infrastructure; protecting the environment.

The Commission's assessment is that Italy has made good progress in implementing its national reform programme over the 2005-2007 period. Against the background of strengths and weaknesses identified and the evidence of progress made, the Commission recommended that Italy is recommended to give the highest priority to the challenges in the areas of: the long-term sustainability of public finances; competition in product and services markets; and education, life-long learning, undeclared work and the operation of employment services, within a flexicurity approach and with a view to reducing regional disparities. In addition, Italy should also focus on the areas of: R&D; CO_2 emission reduction; impact assessment; infrastructure; reconciliation of work and family life; and employment of older workers.

Box: Main points covered by the assessment

As required by Article 5(1) (for stability programmes) and Article 9(1) (for convergence programmes) of Council Regulation (EC) No 1466/97, the assessment covers the following points:

- whether the economic assumptions on which the programme is based are plausible;
- the medium-term budgetary objective (MTO) presented by the Member State and whether the adjustment path towards it is appropriate;
- whether measures being taken and/or proposed to respect that adjustment path are sufficient to achieve the MTO over the cycle;
- when assessing the adjustment path towards the MTO, whether a higher adjustment effort is made in economic good times, whereas the effort may be more limited in economic bad times, and, for euro-area and ERM II Member States, whether the Member State pursues an annual improvement of the cyclically-adjusted balance, net of one-off and other temporary measures, of 0.5% of GDP as a benchmark to meet its MTO;
- when defining the adjustment path to the MTO (for Member States that have not yet reached it) or allowing a temporary deviation from the MTO (for Member States that have), the implementation of major structural reforms which have direct long-term cost-saving effects (including by raising potential growth) and therefore a verifiable impact on the long-term sustainability of public finances (subject to the condition that an appropriate safety margin with respect to the 3% of GDP reference value is preserved and that the budgetary position is expected to return to the MTO within the programme period), with special attention for pension reforms introducing a multi-pillar system that includes a mandatory, fully-funded pillar;
- whether the economic policies of the Member State are consistent with the broad economic policy guidelines.

The plausibility of the programme's macroeconomic assumptions is assessed by reference to the Commission services' autumn 2007 forecast, using also the commonly agreed methodology for the estimation of potential output and cyclically-adjusted balances.

The assessment also examines:

- the evolution of the debt ratio and the outlook for the long-term sustainability of the public finances, which should be given "sufficient attention in the surveillance of budgetary positions" according to the Council report of 20 March 2005 on "Improving the implementation of the Stability and Growth Pact". A Commission Communication of 12 October 2006 sets out the approach to the assessment of long-term sustainability[5];
- the degree of consistency with the national reform programme, submitted by Member States in the context of the Lisbon strategy for growth and jobs, and its October 2007 implementation report. In its cover note of 7 June 2005 to the European Council on the broad economic policy guidelines for the period 2005-2008, the ECOFIN Council stated that the national reform programmes should be consistent with the stability and convergence programmes;
- compliance with the code of conduct[6], which inter alia prescribes a common structure and set of data tables for the stability and convergence programmes.

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5 Communication from the Commission to the Council and the European Parliament, "The long-term sustainability of public finances in the EU", 12.10.2006, COM (2006) 574 final and European Commission, Directorate-General for Economic and Financial Affairs (2006), "The long-term sustainability of public finances in the European Union", European Economy No 4/2006.

6 "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 11 October 2005.

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On the updated stability programme of Italy, 2007-2011

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[7], 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:

(1) On [12 February 2008] the Council examined the updated stability programme of Italy, which covers the period 2007 to 2011.

(2) Real GDP growth in Italy has been below the euro area average since the 1990s and potential growth is estimated to have fallen from above 2% in the early 1990s to around 1½% over the last 15 years. On the positive side, Italy has enjoyed robust employment growth since the turn of the century and its unemployment rate has fallen substantially, also reflecting the impact of labour market reforms. But, while there remains a long way to go before Italy catches up with the EU average in terms of employment rates, the combination of dynamic employment growth and sluggish GDP growth highlights Italy's productivity problem. Notwithstanding the recent recovery, medium-term prospects for the Italian economy remain challenging under the strain of major structural weaknesses. These include in particular limited internal competition in services markets, which only recently have started to be addressed. The structural weaknesses have fed into low productivity growth, a steady loss of external competitiveness and, until recently, a positive inflation differential with the euro area average. A public debt-to-GDP ratio above 100% and the still relatively weak, though improving, budgetary position increase economic uncertainty and generate a high cost

[7] OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website: http://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm.

of debt service, making Italy vulnerable to increases in interest rates. They also prevent more productive uses of public resources and limit the ability of fiscal policy to allow automatic stabilisers to work effectively. Further containing the structural primary expenditure ratio, following its recent stabilisation, and increasing potential growth, also through an improvement of the quality of public finances, are key to rapidly reducing the debt ratio and putting public finances on a sustainable path.

(3) The macroeconomic scenario underlying the programme envisages that real GDP growth slows from 1.9% in 2007 to 1.5% in 2008. This would be followed by a mild but steady acceleration throughout the remainder of the programme period, whereby growth is expected to reach 1.8% in 2011. This scenario appears to be rather favourable[8], in particular as recent developments point to a real GDP growth in 2008 clearly below that of the programme. The programme's projections for inflation also appear to be on the low side for 2008 and plausible thereafter. These inflation prospects, and the underlying moderation in unit labour cost growth, appear to be consistent with a containment of the competitiveness losses of the Italian economy.

(4) For 2007, the general government deficit is estimated at 2.4% of GDP in the 2007 update of the stability programme, against a target of 2.8% of GDP set in the previous update. In the Commission services' autumn 2007 forecast, the deficit was expected at 2.3% of GDP. These lower deficit projections are essentially explained by the 1 pp. of GDP positive base effect from the better deficit outturn in 2006 and the 1.8 pp. higher nominal GDP growth in 2007 vis-à-vis the 2006 programme, partly offset by around 0.9% of GDP of additional expenditure, mainly social transfers and capital expenditure, decided in the course of 2007. In light of more recent information, the 2007 deficit could turn out substantially lower than estimated in the autumn forecast; hence, well below the 3% of GDP Treaty reference value. Budgetary implementation in 2007 is in line with the invitation in the Council opinion of 27 February on the previous update of the stability programme[9] related to the correction of the excessive deficit. The likely very positive 2007 budgetary outturn could have been even better if the above-mentioned additional expenditure had not been not adopted during the year, so it cannot be considered fully in line with the invitation to take advantage of better-than-expected budgetary developments for deficit reduction, also expressed in the April 2007 Eurogroup orientations for budgetary policies.

(5) The programme's budgetary strategy aims at pursuing fiscal consolidation towards the medium term objective (MTO) of a balanced position in structural terms, i.e. cyclically-adjusted and net of one-off and other temporary measures, which is planned to be reached by 2011. On the back of a similar economic outlook to the one in the previous programme, deficit targets for 2008-2011 are broadly unchanged. However, the projected adjustment in 2008 is around ½ pp. of GDP lower than envisaged in the previous update, as the unchanged target is planned against a better starting position. The government deficit is targeted to narrow by only 0.2 pp. of GDP in 2008 but by around ¾ pp. per year thereafter to turn into a balanced position in 2011. The composition of the adjustment is provided only for 2008, when the 0.2 pp. of GDP deficit reduction is planned mainly on the expenditure side. After 2008, the programme only provides the overall size of the consolidation package that is required

8 The assessment also takes into account the Commission services' autumn forecast and the Commission assessment of the October 2007 implementation report of the national reform programme.

9 OJ C 70, 27.3.2007, p. 17.

each year to achieve the budgetary targets relative to trends under an unchanged legislation scenario, without any indication on their composition. The gross debt-to-GDP ratio, estimated at 105% in 2007, i.e. far above the 60% of GDP Treaty reference value, is planned to decline by around 10 percentage points over the programme period.

(6) The risks to the deficit projections in the programme appear broadly balanced in 2008 but the budgetary outcomes could be worse than projected in the programme thereafter. While the likely positive outturn for 2007 would provide a favourable base effect for 2008, the 2008 budget law envisages the use of better-than-expected budgetary developments to fund tax cuts. In light of recent economic developments, the deficit outturn in 2008 is also subject to the risk of a significantly lower GDP growth. The achievement of the 2.2% of GDP deficit target in 2008 could imply a deterioration of both the headline and structural balance relative to 2007.[10] Risks to public finances in the medium term mainly relate to the fact that the adjustment is backloaded to the years after 2008 where no information is given on its composition. In particular, appropriate measures aimed at curbing expenditure developments remain to be spelled out. In view of these risks to the budgetary targets, from 2009 onwards the evolution of the debt ratio may be less favourable than projected in the programme.

(7) In view of this risk assessment, the budgetary stance in the programme is consistent with a correction of the excessive deficit in 2007 as recommended by the Council. However, a sufficient safety margin against breaching the 3% of GDP deficit threshold with normal macroeconomic fluctuations may not be secured before 2010 and the budgetary stance in the programme may not be sufficient to ensure that the MTO is achieved by the end of the programme period, as envisaged in the programme. In 2008, the structural balance risks deteriorating substantially, unless the better-than-projected 2007 starting position is carried through. The pace of adjustment towards the MTO implied by the programme is inadequate and should be strengthened to be in line with the Stability and Growth Pact, which specifies that, for euro area and ERM II Member States, the annual improvement in the structural balance should be 0.5% of GDP as a benchmark. Furthermore, the budgetary stance in 2008 is not in line with the April 2007 Eurogroup orientations for budgetary policies requiring to carefully design fiscal policy for 2008 so as to accelerate the adjustment towards the MTO. From 2009 onwards, the budgetary stance in the programme should be backed up with measures. Finally, taking into account the risks to the debt projections mentioned above, the debt ratio may not be sufficiently diminishing towards the reference value over the programme period.

(8) Italy is at medium risk with regard to the sustainability of public finances. The long-term budgetary impact of ageing is lower than the EU average, with pension expenditure showing a more limited increase than on average in the EU, thanks to the pension reforms adopted. Yet, pension expenditure as a share of GDP remains among the highest in the EU and the projections hinge upon the assumption that the recently adopted reforms are fully implemented, in particular that the revision of the actuarial

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10 This is particularly true for the structural balance. The measure adopted on 31 December 2007 to discontinue the obligation by tax collectors to advance to government the payment of a certain amount of taxes to be collected in the following year could have a negative impact (0.3% of GDP) on the headline balance in 2007. However, it would not have any impact on the structural balance in 2007 because of its one-off nature.

coefficients is implemented as of 2010 as planned and without departing from the contributory principle underlying the reformed pension system. The budgetary position in 2007 as estimated in the programme, which is better than the starting position of the previous programme, contributes to offsetting the projected long-term budgetary impact of ageing but is still insufficient to fully cover future spending pressures, even when factoring in the likely better outturn. Moreover, the current level of gross debt is well above the Treaty reference value and reducing it will require high primary surpluses to be achieved and maintained over a long period.

(9) The stability programme is fully consistent with the October 2007 implementation report of the national reform programme. In particular, budgetary developments and the fiscal policy strategy presented in the report are in line with those described, in more detail, in the stability programme. Although not in a systematic way, the budgetary projections in the programme explicitly take into account the public finance implications of the structural reform actions with a direct budgetary impact envisaged in the report, namely the package included in the Protocol agreement on Welfare, Competitiveness and the Labour market of 23 July 2007, as well as some actions in the area of research and development.

(10) The budgetary strategy in the programme is partly consistent with the country-specific broad economic policy guidelines included in the integrated guidelines and the guidelines for euro area Member States in the area of budgetary policies issued in the context of the Lisbon strategy. Italy should have pursued a more ambitious consolidation strategy given the favourable cyclical and budgetary developments. Appropriate measures aimed at improving the quality of public finances by curbing the upward trend in current primary expenditure and improving its efficiency and cost effectiveness remain to be spelled out.

(11) As regards to the data requirements specified in the code of conduct for stability and convergence programmes, the programme has gaps in the required and optional data.[11]

The overall conclusion is that the programme is consistent with a correction of the excessive deficit in 2007, which should be achieved by a good margin. The 2007 budgetary outturn is likely to outperform expectations due to the favourable cyclical and budgetary developments. This result could have been even better in the absence of the additional expenditure approved during the year. In 2008, the structural balance risks deteriorating substantially, unless the better-than-projected 2007 starting position is carried through. The planned adjustment towards the MTO is back-loaded to the outer years of the programme. The programme provides no information on the composition of the fiscal consolidation strategy after 2008, which hinders its proper assessment. In particular, appropriate measures aimed at curbing expenditure developments remain to be spelled out. In the light of these risks, the MTO may not be achieved by 2011 as planned in the programme and the debt ratio may not be sufficiently diminishing towards the 60% of GDP reference value over the programme period. With regard to the sustainability of public finances, Italy is at medium risk but this assessment assumes the full implementation of the pension reforms.

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[11] In particular, there is no breakdown of the budget consistent with the deficit targets for the years 2009-2011.

In view of the above assessment, and also in the light of the recommendation under Article 104(7) of 28 July 2005 as well as the April 2007 Eurogroup orientations for fiscal policies, Italy is invited to:

(i) building on the positive results of 2007, strengthen the budgetary target for 2008, so as to secure an ambitious adjustment; and pursue the planned fiscal consolidation thereafter with sufficient measures to ensure adequate progress towards the MTO, so as to achieve it within the programme period and thus accelerate the pace of debt reduction;

(ii) in view of the very high level of government debt, fully implement the pension reforms, notably the planned periodical actuarial adjustment, so as to avoid significant increases in age-related spending; and

(iii) continue the effort to improve the quality of public finances by focussing on their composition, increasing the transparency of the budgetary process, spelling out the budgetary strategy within a longer time perspective and effectively implementing mechanisms to monitor and control expenditure.

Italy is also invited to improve compliance with the data requirements of the code of conduct.

		2006	**2007**	**2008**	**2009**	**2010**	**2011**
Real GDP (% change)	**SP Nov 2007**	**1.9**	**1.9**	**1.5**	**1.6**	**1.7**	**1.8**
	COM Nov 2007	1.9	1.9	1.4	1.6	n.a.	n.a.
	SP Dec 2006	*1.6*	*1.3*	*1.5*	*1.6*	*1.7*	*1.7*
HICP inflation (%)	**SP Nov 2007**	**2.2**	**1.9**	**2.0**	**2.0**	**1.8**	**1.9**
	COM Nov 2007	2.2	1.9	2.0	1.9	n.a.	n.a.
	SP Dec 2006	*2.2*	*2.1*	*1.7*	*1.5*	*1.5*	*1.5*
Output gap[1] (% of potential GDP)	**SP Nov 2007**	**-1.0**	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-0.6**
	COM Nov 2007[2]	-1.1	-0.8	-0.9	-1.0	n.a.	n.a.
	SP Dec 2006	*-0.9*	*-0.9*	*-0.8*	*-0.7*	*-0.5*	*-0.5*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Nov 2007**	**-1.9**	**-1.3**	**-0.8**	**-0.6**	**-0.4**	**-0.2**
	COM Nov 2007	-1.9	-1.6	-1.5	-1.5	n.a.	n.a.
	SP Dec 2006	*-2.3*	*-2.0*	*-2.0*	*-2.0*	*-1.9*	*-1.8*
General government balance (% of GDP)	**SP Nov 2007**	**-4.4**	**-2.4**	**-2.2**	**-1.5**	**-0.7**	**0.0**
	COM Nov 2007	-4.4	-2.3	-2.3	-2.3	n.a.	n.a.
	SP Dec 2006	*-5.7*	*-2.8*	*-2.2*	*-1.5*	*-0.7*	*0.1*
Primary balance (% of GDP)	**SP Nov 2007**	**0.1**	**2.5**	**2.6**	**3.4**	**4.2**	**4.9**
	COM Nov 2007	0.1	2.5	2.4	2.5	n.a.	n.a.
	SP Dec 2006	*-0.9*	*2.2*	*2.8*	*3.4*	*4.2*	*5.0*
Cyclically-adjusted balance[1] (% of GDP)	**SP Nov 2007**	**-3.9**	**-2.0**	**-1.9**	**-1.2**	**-0.4**	**0.2**
	COM Nov 2007	-3.9	-1.9	-1.9	-1.8	n.a.	n.a.
	SP Dec 2006	*-5.3*	*-2.3*	*-1.8*	*-1.2*	*-0.4*	*0.3*
Structural balance[3] (% of GDP)	**SP Nov 2007**	**-2.7**	**-2.2**	**-2.0**	**-1.3**	**-0.5**	**0.2**
	COM Nov 2007	-2.7	-2.0	-2.0	-1.9	n.a.	n.a.
	SP Dec 2006	*-3.9*	*-2.5*	*-1.9*	*-1.2*	*-0.4*	*0.3*
Government gross debt (% of GDP)	**SP Nov 2007**	**106.8**	**105.0**	**103.5**	**101.5**	**98.5**	**95.1**
	COM Nov 2007	106.8	104.3	102.9	101.2	n.a.	n.a.
	SP Dec 2006	*107.6*	*106.9*	*105.4*	*103.5*	*100.7*	*97.8*

Notes:

[1]Output gaps and cyclically-adjusted balances from the programmes as recalculated by Commission services on the basis of the information in the programmes.

[2]Based on estimated potential growth of 1.5%, 1.6%, 1.5% and 1.7% respectively in the period 2006-2009.

[3]Cyclically-adjusted balance excluding one-off and other temporary measures. According to the most recent programme and the Commission services' autumn forecasts, one-off and other temporary measures are: 1.2% of GDP in 2006, deficit-increasing; 0.2% of GDP in 2007, deficit reducing, and 0.1% of GDP per year, deficit reducing, from 2008 onwards.

Source:

Stability programme (SP); Commission services' autumn 2007 economic forecasts (COM); Commission services' calculations