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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 23 January 2008
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Recommendation for a

COUNCIL OPINION

in accordance with the third paragraph of Art. 9 of Council Regulation (EC) No 1466/97 of 7 July 1997

On the updated convergence programme of Hungary, 2007-2011

(presented by the Commission)

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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 convergence programme of Hungary was submitted in May 2004. In accordance with the Regulation, the Council delivered an opinion on it on 5 July 2004 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 convergence programme of Hungary, 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 convergence 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 convergence programme),

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

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

[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.

2.1. The excessive deficit procedure for Hungary

On 5 July 2004, the Council adopted a decision stating that Hungary had an excessive deficit in accordance with Article 104(6) and addressed a recommendation to Hungary under Article 104(7) specifying that the excessive deficit had to be corrected by 2008 at the latest, in line with the adjustment path outlined in the country's May 2004 convergence programme. On 18 January 2005, the Council decided based on Article 104(8) that, despite the adoption of some measures reducing the deficit in 2004 and 2005, Hungary did not comply with the recommendations of July 2004. On 8 March 2005, the Council issued another recommendation based on Article 104(7)[2] confirming the 2008 deadline for the correction. However, given a substantial deterioration of the budgetary outlook in Hungary, the Council decided on 8 November 2005 based on Article 104(8) that Hungary did not comply with the new recommendations of March 2005.

On 10 October 2006, the Council adopted for the third time a recommendation to Hungary under Article 104(7), extending the deadline for the correction of excessive deficit by one year to 2009 in view of the substantial required consolidation effort (decline in the structural deficit by more than 6½% of GDP over three years in accordance with the multi-annual path for deficit reduction as specified in the adjusted convergence programme update of September 2006). In addition, Hungary was invited to adopt and implement swiftly the planned structural reforms also with a view to ensuring a lasting improvement of public finances. Finally, Hungary was asked to improve budgetary control by enhancing fiscal rules as well as by strengthening the institutional framework.

On 13 June 2007, the Commission adopted a Communication to the Council assessing compliance with the recommendations of October 2006, also taking into account the Hungarian authorities' first progress report of April 2007. The Commission concluded that Hungary had taken effective action within the six-month deadline set by the Council but it underlined that the planned adjustment was still subject to risks and crucially hinged upon further specifying and implementing the structural reform plans and on reinforcing the budgetary framework. It also stressed that a better-than-targeted outcome in 2007 was possible and desirable building on the better-than-expected budgetary outcome in 2006. No further steps in the excessive deficit procedure were deemed necessary at that stage. In its meeting of July 2007, the Council concurred with this assessment. In September 2007, the authorities submitted their second progress report, informing on the implementation of the fiscal consolidation measures and the recent achievement in deficit reduction as well as on progress with the planned structural reforms, which did not provoke any further step in the excessive deficit procedure.

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 convergence programme, covering the period 2006-2010, as follows. "The Council considers that the programme plans to reduce the very high deficits of the past years through a frontloaded adjustment effort and is broadly consistent with correcting the excessive deficit by 2009, the deadline set by the Council. A number of revenue-increasing and expenditure-containing measures have been taken since the summer of 2006, as well as

[2] Since Hungary is not yet a member of the euro area, the next two steps of the excessive deficit procedure, specified under Article 104(9) and 104(11), do not apply.

initial reform steps in the fields of public administration, health care, pension and education reform. However, there are risks to the achievement of the deficit and debt targets, especially from 2008." In view of its assessment, and also in the light of the recommendation under Article 104(7) of 10 October 2006, the Council encouraged Hungary to continue the highest efforts and invited Hungary to "rigorously implement the 2007 budget and take adequate action to ensure the correction of the excessive deficit by 2009, if necessary through additional measures; and ensure, including by using any extra revenues for deficit reduction, that the gross debt-to-GDP ratio is brought onto a firm downward trajectory, preferably before 2009". In addition, the Council recommended that Hungary "improve budgetary control by enhancing fiscal rules and by strengthening the institutional framework of public finances, building on the first steps undertaken in the budget for 2007". The country was also invited to "curb expenditure in a permanent manner through the adoption and swift implementation of the announced streamlining of the public administration and healthcare systems and the envisaged reform of the education system". Finally, in view of the level of debt and the increase in age-related expenditure, Hungary was asked to "improve the long-term sustainability of public finances by making adequate progress towards the MTO and taking additional pension reform measures as announced".

2.3. 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, Hungary was recommended to “continue to implement the necessary measures to ensure a credible reduction of the government deficit and of gross debt ratios, with increased reliance on the expenditure side, including through the establishment of more thorough and comprehensive expenditure rules”. Furthermore, Hungary was urged to "reform the public administration, health care, pension and education systems with a view to ensuring long-term fiscal sustainability and improve economic efficiency. This should include steps to further limit early retirement, reduce the number of new recipients of disability pensions and further restructure health care".

2.4. 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 included an assessment of the October 2007 implementation report of Hungary’s national reform programme[4]. This can be summarised as follows.

Hungary’s national reform programme as updated in October 2006 recognises key challenges in reducing the fiscal deficit; raising the employment and the activity rate; improving active labour market policies and situation of the disadvantaged in the labour market; reducing regional labour market disparities and in the fields of R&D and innovation; business environment; competition; infrastructure; education and training; energy and environment.

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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.

The Commission's assessment was that Hungary while having made strong efforts and the pace of reform having accelerated, it has made limited progress in implementing its national reform programme over the period 2005-2007.

Against the background of strengths and weaknesses identified and the evidence on progress made, the Commission recommended that Hungary is recommended to giving highest priority to the challenges in the areas of: public finances consolidation; public administration reform, health care, pension and education systems; active labour market policies; education and training.

In addition, Hungary should also focus on the areas of: further reform of the public research system; reducing and redirecting state aids; improving the regulatory environment through further reducing administrative burden and legislative simplification; introducing further incentives to work and to remain in the labour market; ensuring better reconciliation of work and private life; completing the establishment of the integrated employment and social services system; transforming undeclared work into formal employment; and implementing the lifelong learning strategy.

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 convergence programme of Hungary, 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 9(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 convergence programme of Hungary, which covers the period 2007 to 2011.

(2) Over the last several years, Hungary has fallen behind in the catching-up process compared to its neighbours. This has been coupled with increasing fiscal laxity, which contributed to considerable internal and external imbalances and relatively tight monetary policy. Since mid-2006, the Government has taken measures to consolidate public finances. These have set the budget deficit on a decreasing trend from a peak of over 9% of GDP in 2006 to around 6% in 2007 and have started to lead to an improvement of the external balance. At the same time, the indirect tax increases and hikes in regulated prices have temporarily put upward pressure on inflation, which should decelerate again from 2008. The continued fiscal consolidation supported by improved fiscal governance and enhanced structural reforms should form the basis of a return to robust and balanced growth. It could also contribute to providing more room for manoeuvre for monetary policy and to lowering the risk premia.

(3) The baseline macroeconomic scenario projects real GDP growth to decelerate to below its long-term average in 2007 and 2008 and to return to 4% or above from 2009

[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.

onwards. In light of currently available information[8], the growth assumptions appear to be plausible for 2007 and 2008, but rather favourable thereafter. In particular, starting from 2009, the programme projects a rather quick recovery and hence a somewhat favourable evolution of domestic demand, in parallel with only a moderate decline in the contribution of net exports. The envisaged robust growth after 2008 hinges on a rather optimistic assumption for the increase of labour productivity and on the projected rebound in private consumption and investment. The projected improvement in the external balance is plausible provided that fiscal consolidation is continued as planned. Although the foreseen decline in inflation from 7.9% in 2007 to around 3% in the outer years is broadly plausible, higher-than-projected wages and sustained pressure from commodity prices may pose risks to the programme's inflation trajectory and thus could further delay nominal convergence. In this context, the continued implementation of structural reforms and a prudent tax policy play an important role.

(4) For 2007, the general government deficit is estimated at 6.4% of GDP in the Commission services' autumn 2007 forecast, against a target of 6.8% of GDP set in the previous update of the convergence programme. The programme foresees an even lower deficit outcome of 6.2% of GDP for 2007, which in light of the most recent information on budgetary implementation appears to be even surpassed. In mid-January, the Government announced yet again a lower deficit forecast of 5.7% of GDP. The overachievement of the 2007 deficit target is chiefly due to a favourable base effect from 2006 as well as higher-than-expected revenues resulting from tax increases and the implementation of a set of measures addressing tax evasion. The reduction in the deficit would have been even higher had around half of the additional room for manoeuvre not been used to raise expenditures more than planned. On the whole the budgetary implementation in 2007 was broadly in line with the invitation in the Council opinion of 27 February 2007 on the previous update of the convergence programme to rigorously implement the 2007 budget.[9]

(5) The main goal of the update is to correct the excessive deficit by 2009 (reducing it from 6.2% of GDP in 2007 to 3.2% of GDP in 2009[10]), in line with the previous update against a background of a broadly similar macroeconomic scenario, and to further reduce it to 2.2% of GDP in 2011. As interest expenditure is projected to progressively decline after 2008, the primary balance would improve slightly less, from a deficit of 2.2% of GDP in 2007 to a surplus of 1.1% of GDP in 2011. The update confirms the medium-term objective (MTO) for the budgetary position of a 0.5% of GDP deficit in structural terms (i.e. cyclically-adjusted and net of one-off and

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

9 OJ C 71, 28.3.2007, p. 23.

10 The deficit target of 3.2% of GDP in 2009 would still exceed the 3% of GDP threshold specified in the Treaty. As in previous updates, it is assumed in the programme that the Council and the Commission take into account 20% of the yearly burden on the budget arising from the pension reform (which is expected to amount to 0.3% of GDP in that year) when taking a decision on abrogating the excessive deficit procedure for Hungary (in line with Council Regulation (EC) No 1467/97 as amended, Article 2 paragraph 7, which stipulates that if the general government deficit "…*has declined substantially and continuously and has reached a level that comes close to the reference value*", the Council and the Commission should consider the net cost of a pension reform that includes a fully-funded pillar on a linear degressive basis for a transitory period of five years, and taking into account the implementing provisions in the code of conduct).

other temporary measures), which is not expected to be achieved within the programme period. The budgetary consolidation is planned to be realised by reducing the expenditure-to-GDP ratio, after a drop of 1.5 percentage points in 2007, by some 6 percentage points over the programme period; this would more than offset the decrease, from 2008, in the revenue-to-GDP ratio by around 2 percentage points (chiefly driven by a reduction in the tax burden owing to a tax-poor composition of GDP growth). After the expiry of expenditure freezes in 2009, the reduction in the expenditure ratio would be achieved through the progressive phasing-in of structural reforms in the areas of public administration, education, healthcare and pensions as well as further cuts in price subsidies. Government gross debt, estimated at 65.4% of GDP in 2007, i.e. above the 60% of GDP Treaty reference value, is projected to decline by 3.6 percentage points over the programme period.

(6) The risks to the budgetary projections in the programme appear broadly balanced in 2008, due to an expected better outcome in 2007 than foreseen in the programme and since the reserves in the budget could offset possible slippages on the expenditure side. From 2009, the budgetary outcomes could be worse than targeted. The risks to the deficit path stemming from the macroeconomic outlook are neutral until 2008, but from 2009 lower-than-projected GDP growth could lead to higher deficits. Some signs of relaxation in the enforcement of measures on expenditure are appearing, as since mid-2007 expenditures have been catching up with the higher-than-expected revenues and the nominal freeze of the public wage bill (due to expire in 2009) will not be respected in 2008 (although public wages are not expected to rise in real terms when inflation could be above 5%). Additional risks on the expenditure side may arise if the planned reorganisation of the heavily-indebted national railway company does not lead to a reduction in related government expenditure.[11] Further plans and follow-up steps for structural reforms of the public administration, health, pension, price subsidies and education systems play a crucial role in curbing expenditures but there is still a risk that they may not be fully specified and adopted. An important reform proposal improving fiscal governance, submitted to Parliament in November 2007, should help enhance the credibility of the budgetary strategy and reduce budgetary risks; however it will require adoption by qualified majority and its effectiveness in reversing the recent pattern of budgetary slippages needs to be tested. Even though the recent budgetary performance has been better than planned, starting from 2009, there is a risk of a budgetary loosening compared to plans as evidenced by past experience. The negative risks to the budgetary targets equally apply to the debt ratio, therefore its evolution is also likely to be less favourable than projected in the programme, especially after 2008.

(7) In view of this risk assessment, the budgetary stance in the programme seems broadly consistent with a durable correction of the excessive deficit by 2009 as recommended by the Council only if the budgetary measures and structural reform steps announced in the programme are fully and effectively implemented. Nevertheless, the planned 2009 deficit target of 3.2% of GDP does not provide an adequate buffer against

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[11] Indeed, the programme does not seem to include any possible takeover from the debt of MÁV, the State-owned railway company (over 1% of GDP), nor any additional capital injections to MÁV; the same assumption was explicitly made in the Commission services autumn 2007 forecast. Moreover, both do not consider either any receipt in relation to the privatisation of the MÁV's cargo division, nor any consequence of the planned privatisation on the sectoral classification of the company.

unforeseen negative budgetary developments. A sufficient safety margin against breaching the 3% of GDP deficit threshold with normal macroeconomic fluctuations is not expected to be provided within the programme period. In the years following the correction of the excessive deficit, the pace of adjustment towards the MTO implied by the programme appears not to be in line with the Stability and Growth Pact, and moreover is not backed up with measures. In particular, the annual improvement in the structural balance is projected to be only ¼% of GDP in the outer years of the programme period. 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) Hungary appears to be at high risk with regard to the sustainability of public finances. The long-term budgetary impact of ageing on gross public expenditure is above the EU average. Recent reforms in 2006 and 2007 have helped curb the increase in age-related expenditure. However, the significant savings expected from the direct taxation of pensions from 2013 onwards crucially depend on the future tax treatment of pensions, which is not yet fully decided upon. Moreover, and importantly, the budgetary position in 2007 as estimated in the programme, while significantly improved compared to 2006, still constitutes a risk to sustainable public finances even before the long-term budgetary impact of an ageing population is considered. In addition, the current level of gross debt is above the Treaty reference value. Further budgetary consolidation as planned in the programme would contribute to reducing risks to the sustainability of public finances.

(9) The convergence programme seems to be consistent to some extent with the October 2007 implementation report of the national reform programme. Focusing on the measures with a direct budgetary impact, both programmes include the already adopted and planned steps to streamline the institutional system of the entire public sector, including through the rationalisation of capacities in the public administration and health-care system, as well as various measures to discourage early retirement. The new update provides some information on the direct budgetary implications of the structural reform plans and the recently adopted measures outlined in the implementation report. However, not all the envisaged measures are quantified in the budgetary projections of the convergence programme and furthermore their incorporation is neither comprehensive nor systematic.

(10) The budgetary strategy in the programme is broadly consistent with the country-specific broad economic policy guidelines included in the integrated guidelines in the area of budgetary policies issued in the context of the Lisbon strategy.

(11) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme has some gaps in the required and optional data[12].

The overall conclusion is that the programme plans to continue the correction of high deficits of the past years through a necessary frontloaded adjustment effort and envisages modest progress towards the MTO after the planned correction of the excessive deficit in 2009. As a result of the consolidation measures and steps in structural reforms, Hungary is set to

[12] In particular, data on the nominal effective exchange rate are not provided.

considerably outperform its deficit target for 2007 of 6.8% of GDP and to increase progress towards convergence. It also improves somewhat the target for 2008 (to 4% of GDP) compared to the previous programme, and in view of the expected better outcome in 2007 it should be feasible, and indeed desirable, to overachieve it. However, the lower deficit targets are combined with higher-than-previously-planned expenditures on the back of better-than-expected revenues, which cannot be counted on after 2008. Moreover, from 2009 the achievement of the budgetary targets is subject to increasing risks, linked mainly to possible expenditure overruns in case the announced wide-ranging reform agenda is not fully carried out. Thus, the durability of the planned adjustment hinges on the reinforcement of fiscal governance as well as on completing the structural reforms which are key not only to attract foreign direct investment but also to improve the long-term sustainability of public finances, for which Hungary remains at high risk. Such achievements are also crucial in accelerating economic catching-up and ultimately moving towards lasting convergence.

In view of the above assessment and also the recommendation under Article 104(7) of 10 October 2006 and given the need to ensure sustainable convergence, Hungary is invited to:

(i) rigorously implement the 2008 budget, take adequate action to ensure the correction of the excessive deficit by 2009 as planned, where necessary through additional measures; and allocate the better-than-expected revenues to further deficit reduction, also given the insufficient margin in 2009 in view of the risks, thereby also contributing to accelerating the pace of debt reduction towards the 60% of GDP threshold;

(ii) ensure expenditure moderation in a permanent manner by continuing to enhance fiscal rules and institutions and through the adoption and swift implementation of the remaining streamlining measures as announced in the fields of public administration, healthcare, and education system;

(iii) in view of the level of debt and the increase in age-related expenditure, improve the long-term sustainability of public finances by making adequate progress towards the MTO, and continue to reform the pension system as announced after initial steps taken in 2006-2007.

Comparison of key macroeconomic and budgetary projections

		2006	2007	2008	2009	2010	2011
Real GDP (% change)	**CP Nov 2007**	**3.9**	**1.7**	**2.8**	**4.0**	**4.1**	**4.2**
	COM Nov 2007	3.9	2.0	2.6	3.4	n.a.	n.a.
	CP Dec 2006	*4.0*	*2.2*	*2.6*	*4.2*	*4.3*	*n.a.*
HICP inflation (%)	**CP Nov 2007**	**4.0**	**7.9**	**4.8**	**3.0**	**2.9**	**2.8**
	COM Nov 2007	4.0	7.7	4.9	2.8	n.a.	n.a.
	CP Dec 2006	*3.9*	*6.2*	*3.3*	*3.0*	*2.8*	*n.a.*
Output gap[1] (% of potential GDP)	**CP Nov 2007**	**0.8**	**-0.8**	**-1.4**	**-1.0**	**-0.4**	**0.2**
	COM Nov 2007[2]	1.1	0.1	-0.3	0.0	n.a.	n.a.
	CP Dec 2006	*0.9*	*-0.4*	*-1.2*	*-0.5*	*0.4*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**CP Nov 2007**	**-5.7**	**-4.1**	**-2.3**	**-1.7**	**-1.3**	**-0.8**
	COM Nov 2007	-5.7	-3.9	-1.5	-0.4	n.a.	n.a.
	CP Dec 2006	*-6.1*	*-3.6*	*-1.7*	*-0.1*	*0.6*	*n.a.*
General government balance (% of GDP)	**CP Nov 2007**	**-9.2**	**-6.2**	**-4.0**	**-3.2**	**-2.7**	**-2.2**
	COM Nov 2007	-9.2	-6.4	-4.2	-3.8	n.a.	n.a.
	CP Dec 2006	*-10.1*	*-6.8*	*-4.3*	*-3.2*	*-2.7*	*n.a.*
Primary balance (% of GDP)	**CP Nov 2007**	**-5.3**	**-2.2**	**0.1**	**0.6**	**0.8**	**1.1**
	COM Nov 2007	-5.3	-2.4	-0.2	0.1	n.a.	n.a.
	CP Dec 2006	*-6.2*	*-2.4*	*0.0*	*0.9*	*1.1*	*n.a.*
Cyclically-adjusted balance[1] (% of GDP)	**CP Nov 2007**	**-9.6**	**-5.9**	**-3.4**	**-2.7**	**-2.5**	**-2.3**
	COM Nov 2007	-9.7	-6.4	-4.1	-3.8	n.a.	n.a.
	CP Dec 2006	*-10.5*	*-6.6*	*-3.8*	*-3.0*	*-2.9*	*n.a.*
Structural balance[3] (% of GDP)	**CP Nov 2007**	**-8.9**	**-4.8**	**-3.5**	**-2.8**	**-2.5**	**-2.3**
	COM Nov 2007	-9.4	-5.5	-4.2	-3.9	n.a.	n.a.
	CP Dec 2006	*-9.8*	*-5.6*	*-3.7*	*-3*	*-2.9*	*n.a.*
Government gross debt (% of GDP)	**CP Nov 2007**	**65.6**	**65.4**	**65.8**	**64.4**	**63.3**	**61.8**
	COM Nov 2007	65.6	66.1	66.3	65.9	n.a.	n.a.
	CP Dec 2006	*67.5*	*70.1*	*71.3*	*69.3*	*67.5*	*n.a.*

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 3.2%, 3.0%, 3.0% and 3.0% respectively in the period 2006-2009.

[3]Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0.7% of GDP in 2006 and 1.1% in 2007; both deficit-increasing, and 0.1% of GDP in 2008 and 0.1% of GDP in 2009; both deficit-reducing according to the most recent programme and 0.3% of GDP in 2006 and 0.9% in 2007; both deficit-increasing and 0.1% of GDP in 2008 and 0.1% of GDP in 2009; both deficit-reducing according to the Commission services' autumn forecast.

Source: Convergence programme (CP); Commission services' autumn 2007 economic forecasts (COM); Commission services' calculations