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REPORT FROM THE COMMISSION

Spain

Report prepared in accordance with Article 104(3) of the Treaty

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1. THE APPLICATION OF THE STABILITY AND GROWTH PACT IN THE CURRENT CRISIS SITUATION

Many EU countries are presently facing general government deficits above the 3% of GDP reference value set in the Treaty. The often strong deterioration in the deficit as well as the debt positions must be seen in the context of the unprecedented global financial crisis and economic downturn. Several factors are at play. First, the economic downturn brings about declining tax revenue and rising social benefit expenditure (e.g. unemployment benefits). Second, recognising that budgetary policies have an important role to play in the current extraordinary economic situation, the Commission called for a fiscal stimulus in its November 2008 European Economic Recovery Plan (EERP), endorsed by the European Council in December. The Plan explicated that the stimulus should be differentiated across Member States to reflect their different positions in terms of public finance sustainability and competitiveness and should be reversed when economic conditions improve. Finally, several countries have taken measures to stabilise the financial sector, some of which impact on the debt position or constitute a risk of higher deficits and debt in the future, although some of the costs of the government support could be recouped in the future.

The Stability and Growth Pact requires the Commission to prepare a report such as the present one whenever the deficit of a Member State exceeds the 3% of GDP reference value. This report analyses the reasons for the breach of the reference value with due regard to the economic background and all other relevant factors. The amendments to the Stability and Growth Pact in 2005 aimed specifically at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. This means for instance that, if an "excessive deficit" is deemed to exist, adequate attention needs to be paid to the economic background when making recommendations on the pace of the correction. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.

2. LEGAL BACKGROUND

This report, which assesses recent and current budgetary developments in Spain and reviews the short- and medium-term prospects in the light of overall economic conditions and policy action taken by the government, is prepared according to Article 104(3) of the Treaty.

Article 104 of the Treaty lays down an excessive deficit procedure (EDP). This procedure is further specified in Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure"[1], which is part of the Stability and Growth Pact. According to Article 104(2) of the Treaty, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% (unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

Article 104(3) stipulates that this report has to "take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State".

According to the January 2009 update of the Stability Programme, Spain's general government deficit is estimated to have reached 3.4% of GDP in 2008, thus exceeding the 3% of GDP reference value, while general government gross debt would be 39.8% of GDP, below the 60% of GDP reference value and lower than five years ago despite the increase in 2008. This deficit figure reflects the fiscal impact of the discretionary response of the Spanish authorities to the economic downturn as well as the downturn itself. Measures with an impact also in 2009 have been adopted, including a fiscal impulse package presented in November 2008 as a direct response of Spain to the EERP. The budgetary impact in 2009 of all the discretionary stimulus measures taken so far by the Spanish authorities is projected at 2¼% of GDP, with those efforts largely meeting the EERP demands in terms of size, timeliness, temporariness and targeting. Thus, the breach of the 3% of GDP reference value in 2008 and 2009 largely reflects the strength of the downturn and the significant discretionary fiscal measures taken in response to it. The existence of a strong economic downturn, the implementation of a recovery plan and the financial sector support package, with the above mentioned public finance implications, increase the need to undertake enhanced surveillance under the EDP.

Table 1: General government deficit and debt[a]

	2003	2004	2005	2006	2007	2008		2009		2010	
						COM	SP	COM	SP	COM	SP
General government balance	-0.2	-0.4	1.0	2.0	2.2	-3.4	-3.4	-6.2	-5.8	-5.7	-4.8
General government gross debt	48.7	46.2	43.0	39.6	36.2	39.8	39.5	46.9	47.3	53.0	51.6

Note:

[a] In percent of GDP.

Source: Eurostat, Commission services' January 2009 interim forecast and January 2009 update of the Stability Programme of Spain

The figures for the 2008 deficit provide *prima facie* evidence on the existence of an excessive deficit in Spain in the sense of the Treaty and the Stability and Growth Pact. The Commission has therefore decided to initiate the excessive deficit procedure for Spain with the adoption of this report. Section 2 of the report examines the deficit criterion and Section 3 the debt

1 OJ L 209, 2.8.1997, p. 6. Regulation as amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5). The report also takes into account the "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, available at http://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm.

criterion. Section 4 deals with public investment and other relevant factors. This report takes into account the Commission services' January 2009 interim forecast, released on 19 January.

3. DEFICIT CRITERION

In 2008, the general government deficit is estimated to have reached 3.4% of GDP.[2]

Although in excess of 3% of GDP, the deficit remains close to the Treaty reference value.

The excess over the 3% of GDP reference value is not exceptional. In particular,

- it does not result from an unusual event in the sense of the Treaty and the Stability and Growth Pact, and

- it does not result from a severe economic downturn in 2008 in the sense of the Treaty and the Stability and Growth Pact. Between 2003 and 2007, GDP growth was 3½% on average, slightly above potential. As a result, the output gap remained positive, mainly in the period 2006-2007 when it reached 1¼% on average. For the years 2008, 2009 and 2010, the Commission services' January 2009 interim forecast can be considered as an up-to-date assessment of Spain's economic prospects. In 2008, economic activity is estimated to have decelerated markedly, but with the output gap estimated to have remained still positive at 1% of GDP. For 2009 and 2010, the annual GDP would contract by 2% and 0.2% respectively, with output gap turning markedly negative (close to -3% on average).

Table 2: Macroeconomic and budgetary developments[a]

	2003	2004	2005	2006	2007	2008		2009		2010	
						COM	SP	COM	SP	COM	SP
Real GDP (% change)	3.1	3.3	3.6	3.9	3.7	1.2	1.2	-2.0	-1.6	-0.2	1.2
Potential GDP (% change)	3.7	3.4	3.5	3.1	3.0	1.9	2.2	1.1	1.3	1.0	1.8
Output gap (% of potential GDP)	0.2	0.0	0.2	0.9	1.5	0.8	0.3	-2.3	-2.6	-3.4	-3.2
General government balance	-0.2	-0.3	1.0	2.0	2.2	-3.4	-3.4	-6.2	-5.8	-5.7	-4.9
Primary balance	2.1	1.7	2.8	3.7	3.8	-1.8	-1.9	-4.6	-4.1	-4.0	-2.9
One off and other temporary measures	0.0	-0.8	0.0	0.0	0.0	-0.4	0.0	-0.5	0.0	0.0	0.0
Government gross fixed capital formati	3.6	3.4	3.6	3.7	3.8	3.9	3.9	4.6	4.4	3.8	4.0
Cyclically-adjusted balance	-0.3	-0.4	0.9	1.6	1.6	-3.7	-3.5	-5.2	-4.7	-4.2	-3.4
Cyclically-adjusted primary balance	2.1	1.7	2.7	3.2	3.2	-2.1	-2.0	-3.6	-3.0	-2.5	-1.5
Structural balance[b]	-0.3	0.4	0.9	1.6	1.6	-3.3	-3.5	-4.6	-4.7	-4.2	-3.4
Structural primary balance	2.1	2.5	2.7	3.3	3.2	-1.7	-2.0	-3.0	-3.0	-2.5	-1.5

Note:

[a] In percent of GDP unless specified otherwise

[b] Cyclically-adjusted balance excluding one-off and other temporary measures

Source: Eurostat, Commission services' January 2009 interim forecast and January 2009 update of the Stability Programme of Spain

The excess over the 3% of GDP reference value is not temporary in the sense of the Treaty and the Stability and Growth Pact. According to the Commission services' January 2009 interim forecast, the general government headline deficit will increase to 6.2% of GDP in 2009, including deficit-increasing one-off measures worth over ½% of GDP.[3] The forecast was based on a projected GDP contraction by 2% as well as on a prudent assessment of both the 2009 Budget Law and the fiscal package announced by the Spanish authorities on 27

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2 This figure includes the effect of deficit-increasing one-off measures representing 0.4% of GDP related to changes in the timing of VAT payments by firms and of VAT reimbursements by the government.

3 This measure concerns the speeding up of VAT reimbursements by the government.

November 2008. Based on the customary unchanged policy assumption, the 2010 deficit is projected at 5.7% of GDP.

In sum, although the planned deficit in 2008 is close to the 3% of GDP reference value, the excess over the reference value is not exceptional and it is not temporary in the sense of the Treaty and the Stability and Growth Pact. This analysis suggests that the deficit criterion in the Treaty is not fulfilled.

4. DEBT CRITERION

In 2008, the general government gross debt is estimated at 39.5% of GDP in the January 2009 update of the Stability Programme of Spain, below the 60% of GDP Treaty reference value. Between 2003 and 2007, the ratio decreased by 12½ percentage points of GDP from 48.7% of GDP in 2003 to 36.2% in 2007, i.e. by around 3 percentage points of GDP per year on average. The combined effect of significant primary surpluses and strong nominal GDP growth were the main driving forces behind the observed path of debt reduction, which was nevertheless slowed down by positive debt-increasing stock-flow adjustments close to 1% of GDP on average between 2003 and 2007. According to the Commission services' January 2009 interim forecast, the general government debt-to-GDP ratio is projected to significantly increase by almost 17 percentage points of GDP over the forecast period from 36.2% in 2007 to 53% in 2010. In addition to the rise in the deficit and the decline in GDP growth, the impact of the financial rescue package contributes to the projected rise in the debt ratio.

Table 3: Debt dynamics[a]

	2003	2004	2005	2006	2007	2008		2009		2010	
						COM	SP	COM	SP	COM	SP
Government gross debt ratio	48.7	46.2	43.0	39.6	36.2	39.8	39.5	46.9	47.3	53.0	51.6
Change in debt ratio[b]	-3.8	-2.6	-3.2	-3.4	-3.5	3.6	3.3	7.1	7.8	6.1	4.3
Contributions:											
Primary balance	-2.1	-1.7	-2.8	-3.7	-3.8	1.8	1.9	4.6	4.1	4.0	2.9
Snow ball effect	-1.3	-1.3	-1.7	-1.6	-1.0	0.0	-0.1	1.2	1.7	0.8	0.4
of which											
Interest expenditure	2.3	2.0	1.8	1.6	1.6	1.6	1.5	1.6	1.7	1.6	1.9
Real GDP growth	-1.5	-1.5	-1.6	-1.5	-1.3	-0.4	-0.4	0.8	0.6	0.1	-0.5
Inflation (GDP deflator)	-2.0	-1.9	-1.8	-1.6	-1.1	-1.2	-1.2	-1.2	-0.6	-0.9	-1.0
Stock flow adjustment	-0.4	0.5	1.2	1.8	1.3	1.8	1.5	1.3	2.0	1.3	1.0

Note:

[a] In percent of GDP

[b] The change in the gross debt ratio can be decomposed as follows

$$\frac{D_t}{Y_t}-\frac{D_{t-1}}{Y_{t-1}}=\frac{PD_t}{Y_t}+\left(\frac{D_{t-1}}{Y_{t-1}}*\frac{i_t-y_t}{1+y_t}\right)+\frac{SF_t}{Y_t}$$

where t is a time subscript; D, PD, Y and SF are the stock of government debt, the primary deficit, nominal GDP and the stock-flow adjustment respectively, and i and y represent the average cost of debt and nominal GDP growth. The term in parentheses repr

Source: Eurostat, Commission services' January 2009 interim forecast and January 2009 update of the Stability Programme of Spain

5. RELEVANT FACTORS

Article 104(3) of the Treaty provides that the Commission report "shall also take into account whether the government deficit exceeds government investment expenditure and take into account other relevant factors including the medium-term economic and budgetary position of the Member State". These factors are further clarified in Article 2(3) of Council Regulation (EC) No 1467/97, which also specifies that "any other factors which, in the opinion of the

Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value and which the Member State has put forward to the Commission and to the Council" need to be given due consideration.

In view of the above provisions, the following four subsections consider in turn (1) the medium-term economic position; (2) the medium-term budgetary position (including public investment); (3) other factors put forward by the Member State; and (4) other factors considered relevant by the Commission.

5.1. Medium-term economic position

Cyclical conditions and potential growth

After having recorded above-potential GDP growth rates in the recent years, the Spanish economy is estimated to have decelerated sharply in 2008. More specifically, between 1995 and 2007, Spain's GDP grew by an annual average of over 3½% (3¾% in the 2005-2007 years alone) often in excess of potential GDP and on the back of a strong and broad-based domestic demand expansion, which was mirrored in a high and rising external imbalance. The quick end of those patterns triggered the marked slowdown in economic activity in 2008.

In 2009 and 2010, the Spanish economy is projected to experience a period of negative annual GDP volume growth and an accumulated loss of output during a protracted period of very low annual GDP volume growth relative to its potential, mainly driven by a shrinking domestic demand and reinforced by a sluggish export sector. The Commission services' January 2009 interim forecast project GDP to contract in real terms by 2% and 0.2% in 2009 and 2010 respectively, after an estimated growth of 1.2% in 2008. With potential GDP growth rates estimated at some 1¼% over the period 2008-2010, the output gap is expected to turn markedly negative in 2009 and 2010 (-2¼% and -3½% of GDP respectively after +1% in 2008). GDP prospects might be hindered by the large, albeit declining external imbalance, as the net external borrowing needs are projected to be at 6¾% of GDP in 2009 and 6¼% of GDP in 2010, compared with 9% of GDP in 2008. Unlike in previous years, in 2009 and 2010, the high government deficits are expected to account for most of the external deficit.

Recent structural reforms

Notwithstanding the strong growth performance since the mid-nineties up to 2007, the Spanish economy seems to face challenges of a structural nature. Notably, Spain showed a productivity per hour gap vis-à-vis the euro area average of around 10% since the mid-nineties, with little evidence of a clear and sustained upward trend emerging from aggregate GDP per hour figures. In line with the priorities put forward in the Spanish national reform programme (including the latest 2008 implementation report) in the context of the Lisbon strategy for growth and jobs, the government has dovetailed efforts to areas seeming key to foster productivity and thereby potential GDP such as R&D and innovation and education. In particular, spending in these areas has increased at a higher pace than overall government expenditure, sometimes by a notorious margin. Further efforts in these areas over the coming years are outlined in the reform programme but the related spending effort seems to be very limited in terms of GDP (0.1% in the case of R&D). Government spending on infrastructure has also been somewhat buoyant. In addition, part of the fiscal stimulus outlined for 2009 aims at increasing public spending in infrastructure (over ¾% of GDP). A significant part of Structural Funds inflows have been earmarked for Lisbon-related areas, notably those highlighted in the Council recommendations to Spain.

5.2. Medium-term budgetary position

Structural deficit and fiscal consolidation in good times

Significant progress was made since the mid-nineties up to 2007 to consolidate public finances in a sustained manner. That was reflected in a gradual improvement of the headline government balance ratio from deficits of some 6% of GDP in 1995 to a surplus of 2.2% of GDP in 2007 and in the subsequent declining debt ratio. To a large extent this was contemporaneous to a continued improvement in the structural balance (i.e., the cyclically-adjusted balance net of one-off and other temporary measures)[4] from a deficit of around 1¼ % of GDP in the year 2001 to a surplus of 1½% of GDP in both 2006 and 2007. The structural primary balance followed the same direction but with a milder slope evolving from a surplus of about 1½% of GDP in 2001 to some 3% of GDP in 2007 – meaning that around half of the reduction in the structural balance was due to a falling interest burden. Yet in 2008 the structural balance deteriorated markedly to a deficit of about 3¼% of GDP. That was the result of not only a number of discretionary measures in response to the economic downturn but also of rather large composition effects on account of a much less tax-rich GDP growth pattern.[5] Overall, this implied an overachievement of the medium-term objective (MTO) for the Spanish government balance of a balanced position in structural terms in various years until 2007 but a significant departure from it in 2008.

These fiscal developments took place against a backdrop of a continuously positive output gap over the current decade – at over ¾% of GDP on average – assessed from an ex-post viewpoint. Consideration of other factors, confirm the assessment of 'good times' for the Spanish economy for the years up to 2006/2007, notably the fact that fiscal consolidation efforts benefited from a tax-rich GDP growth pattern. In all, the fiscal stance was restrictive until 2006 with annual reductions in the structural balance of around ½% of GDP on average, largely neutral in 2007 and clearly expansionary in 2008.

According to the Commission services' January 2009 interim forecast, the structural balance is projected to loosen further to a deficit of some 4½% of GDP in 2009 and, based on the assumption of unchanged policies, to decline to around 3¼% of GDP in 2010. To a large extent, the spike in 2009 is the result of a number of expansionary fiscal measures adopted by the Spanish authorities in response to the economic downturn and in line with the EERP in terms of size, timeliness, temporariness and targeting. Those measures had been included in specific packages in April and August 2008 (and incorporated in the 2009 Budget Law) and in the fiscal stimulus package for 2009 adopted by the Spanish authorities in November 2008 as a direct response to the EERP.[6] Therefore, the fiscal stance will be clearly expansionary in 2009 and restrictive in 2010. The structural balance will depart significantly from the MTO in both years. These developments are expected to take place against the backdrop of a negative and widening output gap as described above.

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[4] Estimated by the Commission services on the basis of the commonly agreed methodology on estimating output gaps.

[5] The major discretionary measures consisted of personal income tax cuts (worth 0.7% of GDP); transfers to families with children (0.1% of GDP); and, corporate tax cuts (0.5% of GDP).

[6] The major measures consist of: property tax cuts (0.2% of GDP); corporate tax cuts (0.3% of GDP); support for local governments investment (0.8% of GDP); and, government spending in other selected areas to support growth and jobs (0.3% of GDP).

Public investment

Government investment has been relatively constant in terms of GDP at just over 3½% between 2001 and 2008, with a very gentle upswing in more recent years. In 2008, the government investment-to-GDP ratio exceeded the estimated general government deficit ratio by ½ percentage point. According to the Commission services' January 2009 interim forecast, in 2009, the public investment ratio is expected to increase by some ¾ percentage point of GDP reflecting the discretionary fiscal stimulus packages in response to the EERP with effect on this year; in 2010, a return to a figure in line with the average of recent years is foreseen. In both years, the general government deficit ratio would exceed the government investment-to-GDP ratio by a notorious margin.

Quality of public finances

Until 2007, Spain exhibited a strong fiscal adjustment, mainly revenue based. On the expenditure side, lower interest expenditure, by some 1½ percentage points of GDP, was largely offset by a rising primary expenditure ratio, which reached 37¼% of GDP in 2007. The fiscal deterioration in 2008 is estimated to have been the result of both a sharp decline in the revenue ratio by 4½ percentage points of GDP and an increase in the expenditure ratio by 1½ percentage points of GDP. According to the Commission services'' January 2009 interim forecast, government expenditure is expected to advance further by 2½ percentage point of GDP in 2009. Overall, expenditure-to-GDP ratios in Spain have been visibly below those of the euro area and EU averages, while its functional composition has been relatively stable for a number of years.

Long-term sustainability of public finances

In its opinion of 4 March 2008 on the December 2007 update of the Stability Programme of Spain, the Council assessed the long-term sustainability of Spain's public finances as follows. Spain appears to be at medium risk with regard to the sustainability of public finances. The long-term budgetary impact of ageing is well above the EU average, mainly as a result of a relatively high increase in pension expenditure as a share of GDP over the coming decades. The budgetary position in 2007, reflected in a strong primary surplus as well as a low and decreasing debt ratio, contributes to offsetting the projected long-term budgetary impact of ageing populations. However, this is not sufficient to fully cover future spending pressures. Maintaining high primary surpluses over the medium term and implementing further measures aimed at curbing the substantial increase in age-related expenditure would contribute to reducing risks to the sustainability of public finances. The Council invited the authorities to further improve the long-term sustainability of public finances with additional measures to contain the future impact of ageing on spending programmes. The worsening of the fiscal position in 2008 as well as the expected fiscal developments in 2009 and 2010 seems to reinforce the concerns about the long-term sustainability of Spain's public finances. However, today, the Commission is adopting a recommendation for a Council Opinion on the January 2009 update of the Stability Programme of Spain that includes a revision of the long-term sustainability assessment of Spain's public finances to high risk mainly due to the estimated deterioration in the fiscal position in 2008.

5.3. Other factors put forward by the Member State

In a letter of 16 February 2009, the authorities of Spain listed some relevant factors in accordance with Article 2(3) of Council Regulation (EC) No 1467/97. The analysis presented above already covers almost all the items put forward by the authorities, including the budgetary impact of the fiscal stimuli to soften the slowdown in 2008, a GDP ratio of public investment higher than the deficit-to-GDP ratio, or the ongoing efforts in R&D. The letter also refers to the Official Development Aid expenditure, which amounted to 0.4% of GDP in 2008, and to the declining net financial balance with the EU budget, which amounted to 1 billion euro in 2008 (7.8 billion euro in 2004). The 2008 Budget Law already took account of these budgetary items.

5.4. Other factors considered relevant by the Commission

Recent public finance developments in Spain were also influenced by the following factors in the area of budgetary institutions and procedures.

Until 2007, Spain succeeded in over-achieving the medium-term budgetary targets included in the successive annual updates of its Stability Programme, mainly thanks to higher-than-expected GDP growth. In addition, Spain's public finance statistics have proved to be of high quality, notably the first estimates have proved very reliable.

Spain is characterised by a relatively large fiscal decentralisation notably with regional government accounting for a significant part of total general government expenditure (some 35% of the total on average between 2003 and 2007), reflecting a decentralised administrative structure. In terms of budgetary framework, the relations between the different tiers of general government are regulated by the General Law of Budgetary Stability as amended in 2006, which inter alia requires every subsector to be in balance or in surplus over the business cycle.

In its opinion on the most recent update of the Stability Programme, the Council considered that in the context of the (at the time) given favourable economic growth assumptions and the end of the housing boom, the projected government revenue could turn out to be on the high side. In this context, the Council considered that a careful assessment of the impact on the general government balance of permanent tax cuts and/or expenditure increases would be crucial to maintain a strong budgetary position and to ensure the long-term sustainability of public finances, which is at medium risk.

The Spanish authorities have adopted a range of measures to stabilise the financial sector. This includes an increase of the amount of the Deposit and Investment Guarantee Fund (from 20,000 to 100,000 euro per account-holder and bank) and the creation of the Financial Asset Acquisition Fund in order to promote lending to companies and individuals, endowed with 30 billion euro (close to 3% of GDP), including the possibility of an expansion up to 50 billion euro. Moreover, the authorities decided to grant exceptional authorisations to the Ministry of Economy and Finance to award State guarantees for new funding transactions by Spanish-resident banks in 2009 up 100 billion euro (10% of GDP), maturing between three months and three years, and close to 90 billion have been granted to date. A special authorisation also allowed the acquisition of securities issued by Spanish-resident banks in order to strengthen their own funds.

6. CONCLUSIONS

According to the January 2009 update of the Stability Programme of Spain and the Commission services' January 2009 interim forecast, the general government deficit in Spain is estimated to have reached 3.4% of GDP in 2008, above but close to the 3% of GDP reference value. The deficit for 2009 and 2010 is planned to be well above the 3% of GDP. These deficit developments reflect the economic downturn as well as the impact of the Spain's specific response to the EERP, a "recovery plan" amounting to 1.1% of GDP.

The excess over the reference value can not be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact. Furthermore, it can not be considered temporary. This suggests that the deficit criterion in the Treaty is not fulfilled.

General government gross debt remains below the 60% of GDP reference value.

In line with the Treaty, this report has also examined “relevant factors”, which, according to the Stability and Growth Pact, can only be taken into account in the steps leading to the decision on the existence of an excessive deficit if the double condition – that the deficit remains close to the reference value and that its excess over the reference value is temporary – is fully met. Considered on their own merit, the relevant factors in the current case on balance seem to be relatively favourable.

The existence of a severe economic downturn, the implementation of a recovery plan and the financial sector support package, with the above-mentioned public finance implications, increase the need to undertake enhanced surveillance under the EDP.