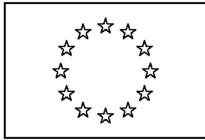

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 16.2.2005
SEC(2005) 229 final

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, 2004-2008**

(presented by the Commission)

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## EXPLANATORY MEMORANDUM

Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1] stipulates that non-participating Member States, that is, those which have not adopted the single currency, have to submit convergence programmes to the Council and the Commission. In accordance with Article 9 of this Regulation, the Council has to examine each convergence programme based on assessments prepared by the Commission and the Committee set up by Article 114 of the Treaty (the Economic and Financial Committee). On the basis of a recommendation from the Commission and after consulting the Economic and Financial Committee, the Council is required to deliver an opinion, following its examination of the programme. According to the Regulation, Member States need to submit annual updates of their convergence programmes, which may also be examined by the Council in accordance with these same procedures.

The Member States that joined the EU on 1 May 2004 do not participate in the single currency, but are required to fulfil in due time the convergence criteria, including the one on the sustainability of the government financial position, in order to qualify for the adoption of the euro. In view of a general government deficit of 5.9%[2] of GDP recorded in 2004, the Council decided on 5 July that Hungary was in excessive deficit and recommended that the excessive deficit be corrected by 2008 at the latest in line with the May 2004 convergence programme. In particular, Hungary was recommended to "take effective action regarding the measures envisaged to achieve the 2005 deficit target", and to "implement with vigour the measures envisaged in the May 2004 convergence programme, in particular to stand ready to introduce additional measures, if necessary, with a view to achieving the general government deficit target for 2004". The Commission, while recognising that the Hungarian government had adopted some measures between July and November 2004, considered that they were insufficient to avoid a sizeable deviation from the targets for 2004 and 2005 and more generally from the multi-annual adjustment path until 2008. Therefore, it adopted on 22 December 2004 a recommendation for a Council decision under Article 104(8) that effective action was not taken in response of the 5 July 2004 Council recommendations. The Council adopted on 18 January 2005 such a decision.

The first convergence programme of Hungary, covering the period 2004-2008, was submitted on 13 May 2004 and assessed by the Council on 5 July 2004. Its update was submitted on 1 December 2004. The Commission services have carried out a technical evaluation of this update, taking into account the results of the Commission services Autumn 2004 economic forecasts, and having regard to the code of conduct[3], the commonly agreed methodology for the estimation of potential output, the recommendations in the Broad Economic Policy Guidelines for the period 2003-2005 and the principles laid down in the Communication from the Commission to the Council and the European Parliament of 27 November 2002 on

[1] OJ L 209, 2.8.1997. All the documents referred to in this text can be found at the following website http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm.

[2] It was based on the Commission Spring 2004 economic forecast, which took into consideration data reported by Hungary in March 2004. The September 2004 notification corrected the general government deficit upwards from 5.9% of GDP to 6.2% for 2003.

[3] Revised Opinion of the Economic and Financial Committee on the content and format of stability and convergence programmes, endorsed by the ECOFIN Council on 10.7.2001.

strengthening the coordination of budgetary policies[4]. This evaluation warrants the following assessment:

- The update of the Hungarian convergence programme was submitted on 1 December 2004 and covers the period between 2004 and 2008. It broadly complies with the data requirements of the "code of conduct on the content and format of stability and convergence programmes". While it contains all the compulsory data, the primary balance is not calculated according to the conventional definition. Some optional data such as on long-term health care expenditure are also missing.

- The macroeconomic scenario presented in the update is rather favourable. It foresees a continuation of the recovery in economic activity with gradually increasing real GDP growth from 3.9% in 2004 to 4.6% in 2008. For the years 2005-2006, the projections of the update are slightly higher than those of Commission services in the autumn 2004 forecast, with real GDP growth being projected at 4.0% in 2005 and 4.2% in 2006 compared with 3.7% and 3.8%. Similarly, while Commission forecasts are not available for the other years, the growth projections in the update for the outer years also seem to be on the optimistic side. According to Commission services calculations applying the commonly agreed methodology to the figures of the programme, real GDP growth would be above potential over 2007-2008. The corresponding output gap decreases moderately from just above to just below -1% between 2004 and 2006; for the years 2007 and 2008 it drops sharply to almost zero.

- The renewed disinflation process that started in the second half of 2004 is projected to continue over the programme horizon and inflation would drop to 3% by 2008. The interest rate projections in the programme appear rather favourable. Their fulfilment would require an environment of significantly improved confidence, characterized by substantially lower inflation than currently is the case, improved fiscal and current account balances as well as renewed confidence of market participants in the euro adoption strategy. The update maintains the 2010 target date for euro adoption.

- The decision by Eurostat of 23 September 2004 allows a temporary classification until the March 2007 fiscal notification of second pillar pension funds inside the general government. The Hungarian authorities decided to avail themselves of this possibility and presented general government deficit figures excluding the second pillar burden created by the 1998 pension reform. Compared to the May 2004 programme, this reclassification lowers the yearly deficit figures by 0.8-1 percentage point between 2004 and 2008. For the sake of comparison with the previous programme and with the Commission services autumn 2004 forecast, and given that the final 2008 target will not benefit from this reclassification, figures used in the assessment both include and exclude such burden created by the pension reform.

- The update foresees the following general government deficit: 4.5% of GDP in 2004, 3.8% in 2005, 3.1% in 2006, 2.4 in 2007 and 1.8% of GDP in 2008. (Including the burden of the pension reform, the projected general government deficit path would be 5.3%, 4.7%, 4.1%, 3.4% and 2.8% of GDP between 2004 and 2008; hence it keeps the target date to correct the excessive deficit.) In the light of the sizeable deviation from the 2004 target of 4.6% of GDP including the burden of the pension reform contained in the May convergence

[4] COM(2002) 668, 27.11.2002.

programme - outturn estimated by the update at 4.5% of GDP (5.3% of GDP including the burden of the pension reform), which is in line with the revised target -, it changes the frontloaded adjustment path of the May 2004 programme to a more linear consolidation trend until the end of the programme period. After the estimated consolidation of 0.9 percentage point of GDP in 2004, it now projects an annual adjustment of some 0.6-0.7 percentage point for the remaining years, instead of the originally planned yearly adjustment of 0.5 percentage point. The update maintains a consolidation strategy based on a reduction of the expenditure ratio (from 44.8% of GDP in 2004 to 43.4% in 2008), which is supposed to be underpinned by structural reforms, and coupled with a more moderate decline in the revenue ratio. The most pronounced expenditure reduction would occur in 2005. However, this is mainly based on 0.5 percentage point decline in the interest burden, and by a 1.7 percentage point expenditure reduction for public investment. This large decline in public investment in 2005 would be partly compensated by higher investment in the following years, thereby leading to a decrease by 0.6 percentage point in the public investment ratio between 2004 and 2008. The drop in public investment expenditure would be compensated by increased recourse to PPP projects. The primary deficit, after an improvement by 1.2 percentage point in 2004, would register an annual decline of about 0.3-0.4 percentage point during the remaining years so that, including the burden of the pension reform, a slight surplus would be reached in 2008 when the transitory period provided by Eurostat until the March 2007 notification for the accounting of such item will already have expired.

– The adjustment path described in the programme and in particular the new deficit target for 2005 of 3.8% of GDP (4.7% of GDP including the burden of the pension reform) can be considered appropriate to correct the excessive deficit by 2008 provided that it is backed by sufficient measures. However, the final target of 2.8%[5] of GDP only leaves a small safety margin, which might be reduced further because of a change in the starting position as there are still some uncertainties linked to the outcome of the 2004 budget.[6] Furthermore, the budgetary outturn for 2005 to 2008 may be worse than projected. (i) The macroeconomic scenario being rather favourable indicates that revenues could turn out lower and expenditures higher than expected. As suggested by the Commission services Autumn 2004 forecast (projecting 5.2% of GDP for 2005 and 4.7% of GDP for 2006 including the burden of the pension reform; or 4.3% and 3.7% of GDP excluding this burden), meeting the budgetary targets for 2005 and 2006 seems to be subject to some risks. For 2005, this takes into account that the Government has established an "emergency" reserve package of 0.5% of GDP against a possible undershooting of the 2005 target. While the existence of this reserve is welcome, the amount allocated to it seems insufficient, in view of the risks surrounding the Budget 2005. Furthermore, there are concerns that freeing of these reserves could occur too early in the year, thereby reducing the incentives for a rigorous implementation of the 2005 budget. Missing the

[5] This figure includes again the burden of the pension reform since according to Eurostat the exclusion of this item is only possible until the March 2007 fiscal notification.

[6] The difference between the cash based and the accrual based data is not yet known. Due to EU accession related reasons, notably the changes in the collection of VAT on intra EU imports, this difference was assumed to be unusually high in 2004, amounting between 1.2-1.4 percentage point. However, there are accounting uncertainties related to agricultural subsidy payments and the payment of the 13th salary to public employees. Therefore, the difference between cash and accrual accounting might turn out lower, thereby increasing the accrual based deficit in 2004. If the refunds of VAT are accelerated, as was indicated by the Hungarian authorities, they might increase the (accrual based) deficit of 2004 by almost 0.7 percentage point.

2005 and 2006 targets would increase the further adjustment needed in the years 2007 and 2008. (ii) Possible cuts in VAT rates in the framework of the ongoing tax reforms could increase the risk to revenues even if they compensated by an increase in other rates; its timing would therefore require careful consideration and it would need to be made conditional upon the full achievement of deficit targets. (iii) The adoption of intended reform measures constituting the base of future expenditure cuts is not yet secured. Furthermore, most of the expenditure-reducing measures contained in the 2005 budget are not backed by comprehensive reforms. (iv) The interest rate assumptions of the update, which are conditional on a further restoration of confidence, may not materialise in the following years, with such favourable time profile. (v) It also appeared that VAT refunds originating from economic activities in 2004 may not be fully disbursed in time to avoid burdening the 2005 (accrual based) budget, but the authorities have committed to accelerate these refunds so that they will not burden the 2005 budget. On the other hand, this strengthened control on VAT refunds initiated end-2004 might contribute to a reduction of the expected shortfall of VAT revenues, which constitutes a positive risk.

– In view of this assessment, there is a risk that budgetary outcomes could be worse than projected in the update. Therefore, although the adjustment path contained in the programme seems adequate, the measures outlined in the programme do not appear to comply with this path and therefore may not ensure that the deficit (including the burden of the pension reform) is reduced to below 3% of GDP by 2008. In order to respect such an adjustment path, additional measures are needed. In particular, it seems paramount to meet the new 2005 target, which, in view of the above assessment, would imply that additional measures of at least 0.5 percentage point appear necessary.

– The debt ratio, which increased to 57.3% of GDP in 2004 (59.9% of GDP including the burden of the pension reform), is expected to gradually decrease again from 2005, triggered by the continuous lowering of the general government deficit and the declining interest burden on the debt stock. It is expected to fall below 50% of GDP in 2008 (or to reach just above 53% of GDP including the burden of the pension reform). This decline is planned to be supported by a change in the debt management strategy, resulting in savings on interest expenditure. Risks to the debt ratio correspond to those for the deficit projections.

– The May 2004 convergence programme announced structural reforms (in particular in the areas of public administration, education and health) to back the expenditure control underlying its strategy. The 2005 budget contains a number of measures aimed at improving efficiency in the central government sector. However, these do not correspond with the ambitious plans of the May programme. While the update gives more details about specific planned reform steps, it still does not quantify their expected effects nor does it detail their state of implementation. This suggests that the more comprehensive reforms of the health and education sector will indeed be postponed until after the elections in 2006, as recently indicated by the government.

– With regard to the long-term sustainability of the public finances, Hungary appears to be at some risk on grounds of the projected budgetary costs of an ageing population. Risks are in part related to the uncertainty regarding the long-term budgetary trends due to the lack of information on health-care expenditure projections. The reformed pension system, including the introduction of the funded second pillar, contribute consistently to reducing the budgetary impact of ageing and to reducing risks of unsustainable public finances.

However, it is imperative to pursue other reforms, particularly in the field of health care as well as to resolutely implement the planned budgetary consolidation in the medium term.

- The economic policies outlined in the update are partly consistent with the country-specific broad economic policy guidelines in the area of public finances. The general government deficit was to be reduced "in a credible and sustainable way within a multi-annual framework in line with the decisions to be taken by the Council in the context of the budgetary surveillance exercise". However, Hungary has not complied with the 104(7) recommendations of the Council of 5 July 2004 under the excessive deficit procedure, as decided by the Council on 18 January 2005 based on Article 104(8) of the Treaty. The update retains a multi-annual framework for correcting the excessive deficit by 2008, although there is a risk of a worse-than-projected budgetary outcome.
- In view of the above assessment and in the light of the recommendations made by the Council under Article 104(7), it would be appropriate for Hungary to (i) take action in a medium-term framework in order to bring the deficit (including the burden of the pension reform) below 3% of GDP by 2008 in a credible and sustainable manner, in particular through additional measures to achieve the new adjustment path including the new deficit target of 3.8% of GDP (4.7% of GDP including the burden of the pension reform) in 2005, and by seizing every opportunity to accelerate the fiscal adjustment; (ii) make the timing and implementation of any tax cuts conditional upon the achievement of the deficit targets of the convergence programme update submitted in December 2004; (iii) progress with the envisaged reforms of the public administration, health and education systems as committed also with a view to improving the long-term sustainability of the public finances.

Based on this assessment, the Commission has adopted the attached recommendation for a Council Opinion on the updated convergence programme of Hungary and is forwarding it to the Council.

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, 2004-2008**

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 [8 March 2005] the Council examined the updated convergence programme of Hungary, which covers the period 2004 to 2008. The programme broadly complies with the data requirements of the "code of conduct on the content and format of stability and convergence programmes". While it contains all the compulsory data, the primary balance is not calculated according to the conventional definition. Some optional data are also missing, such as long-term health care expenditure. Accordingly, Hungary is invited to achieve full compliance with the data requirements.

(2) The macro-economic scenario underlying the update envisages real GDP growth to gradually increase from 3.9% in 2004 to 4.6% until the end of the programme period. On the basis of currently available information, this scenario seems to reflect rather favourable growth assumptions. Both the projected growth in 2005 and 2006 and the projected evolution of growth in the medium term appear on the high side. The update's projections for inflation appear broadly realistic.

(3) On 5 July 2004, the Council decided that an excessive deficit existed in Hungary and recommended that this be corrected by 2008. The update foresees the following deficit path: 4.5% of GDP in 2004, 3.8% in 2005, 3.1% in 2006, 2.4 in 2007 and 1.8% of GDP in 2008 These figures are reflecting the decision by Eurostat of 23 September

7 OJ L 209, 2.8.1997, p. 1. The documents referred to in this text can be found at the following website: http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm.

2004, which allows a temporary reclassification until the March 2007 fiscal notification of second pillar pension funds inside the general government. The Hungarian authorities decided to avail themselves of this possibility and presented the general government deficit figures excluding the second pillar burden created by the 1998 pension reform. According to these figures, the general government deficit path would be 5.3%, 4.7%, 4.1%, 3.4% and 2.8% of GDP between 2004 and 2008; hence the update keeps the target date for the correction of the excessive deficit. For the sake of comparison with the May convergence programme and with the Commission services Autumn 2004 forecast, not only the adjusted but also the figures excluding the burden of the pension reform are referred to in this opinion. After the estimated consolidation of 0.9 percentage point of GDP in 2004, the update projects an annual adjustment of some 0.6-0.7 percentage point for the remaining years. The update bases its consolidation strategy on a reduction of the expenditure ratio, underpinned by structural reforms, coupled with a more moderate decline in the revenue ratio. The most pronounced expenditure cut would be carried out in 2005, mainly based on 0.5 percentage point decline in the interest burden and a 1.7 percentage point reduction of public investment expenditure. The drop in public investment expenditure would be compensated by an increased recourse to PPP projects. Details about the foreseen timeframe and quantification of the outer years' expenditure-reducing measures are not presented. The adjustment path of the primary deficit would be similar to the general government deficit reduction path. The primary deficit would turn into a slight surplus in 2008.

(4) The adjustment path described in the programme and in particular the new deficit targets for 2005 of 3.8% of GDP (4.7% including the burden of the pension reform) and of 2.8% of GDP in 2008 including the burden of the pension reform can be considered appropriate to correct the excessive deficit by 2008 provided that it is backed by sufficient measures. However, the final target of 2.8% of GDP (including the burden of the pension reform) only leaves a small safety margin, which might be reduced further because of a change in the starting position as there are still some uncertainties linked to the outcome of the 2004 budget[8]. The budgetary projections in the programme appear to be on the upside: (i) The macroeconomic scenario being rather favourable suggests that revenues could turn out lower and expenditures might be higher than expected. As suggested by the Commission services Autumn 2004 forecast, the deficit targets for 2005 and 2006 seem to be subject to upward risks. For 2005, this takes into account that the Government has established an "emergency" reserve package of 0.5% of GDP against a possible overshooting of the 2005 target. While the existence of this reserve is welcome, the amount allocated to it seems insufficient, in view of the risks surrounding the Budget 2005. Furthermore, there are concerns that freeing of these reserves could occur too early in the year, thereby reducing the incentives for a rigorous implementation of the 2005 budget. Missing the 2005 and 2006 targets would put increased pressure on the adjustment in the years 2007 and 2008. (ii) Expenditure cuts in 2005 and beyond are subject to risks since the reform measures included in the 2005 budget might not be fully implemented, and

[8] There are accounting uncertainties related to agricultural subsidy payments and the payment of the 13th salary to public employees which could reduce the difference between the cash based and the accrual based deficit, thereby increasing the accrual based deficit in 2004. If the refunds of VAT are accelerated, as was indicated by the Hungarian authorities, they might increase the deficit of 2004 by almost 0.7 percentage point.

moreover, they are not embedded in a comprehensive reform strategy. (iii) The favourable interest rate assumptions of the update, which are conditional on a further restoration of confidence, constitute a further budgetary risk. (iv) There are also concerns about the credibility of the expenditure and revenue targets, since the objectives set in previous years were missed by a large margin. Moreover, any possible cut in VAT rates in the framework of the ongoing tax reforms could increase the risk to revenues even if the intention was to compensate it by an increase in other rates; its timing would therefore require careful consideration and it would need to be made conditional upon the full achievement of deficit targets. (v) There could also be a risk from the fact that VAT refunds related to economic activities in 2004 have been delayed, but the authorities have committed to accelerate these refunds so that they will not burden the 2005 budget. On the other hand, this strengthened control on VAT refunds initiated end-2004 might also contribute to a reduction of the expected shortfall of VAT revenues, which constitutes a downward risk.

(5) In view of this assessment, there is a risk that the budgetary outcomes could be worse than projected in the update. Therefore, although the adjustment path contained in the programme and in particular the new deficit target for 2005 of 3.8% of GDP (4.7% of GDP including the burden of the pension reform) can be considered appropriate to correct the excessive deficit by 2008, the fiscal stance in the programme does not appear to be sufficient to implement this path and therefore may not ensure that the deficit is reduced to below 3% of GDP by 2008. In order to make the adjustment path credible additional measures would be needed. In particular, it is paramount to meet the new 2005 target. In view of the above assessment, additional measures of at least 0.5 percentage point would be appropriate.

(6) The debt ratio is estimated to be 57.3% of GDP in 2004 (it would reach 59.9% of GDP including the burden of the pension reform, just below the 60% of GDP Treaty reference value). The programme projects the debt ratio to decline by about 7 percentage points over the programme period. Risks to the debt ratio correspond to those for the deficit projections.

(7) With regard to the long-term sustainability of the public finances, Hungary appears to be at some risk on grounds of the projected budgetary costs of an ageing population. Risks are in part related to the uncertainty regarding the long-term budgetary trends due to the lack of information on health-care expenditure projections. The strategy outlined in the programme is mainly based on the budgetary consolidation in the next few years and additional reform measures to be implemented in the future. The reformed pension system, including the introduction of the funded second pillar, contribute consistently to reducing the budgetary impact of ageing and to reducing risks of unsustainable public finances. However, it is important to pursue other reforms, particularly in the field of the health-care as well as to resolutely implement the planned budgetary consolidation in the medium-term.

(8) The economic policies outlined in the programme are partly consistent with the country-specific broad economic policy guidelines in the area of public finances. The general government deficit was to be reduced "in a credible and sustainable way within a multi-annual framework in line with the decisions to be taken by the Council in the context of the budgetary surveillance exercise". However, Hungary has not complied with the 104(7) recommendations of the Council of 5 July 2004 under the excessive deficit procedure, as decided by the Council on 18 January 2005 based on

Article 104(8) of the Treaty. The update retains a multi-annual framework for correcting the excessive deficit by 2008, even though there is a risk of worse-than-projected budgetary outcome.

* * *

In view of the above assessment and in the light of the recommendations made by the Council under Article 104(7) on [8 March 2005], the Council is of the opinion that Hungary should:

(i) take action in a medium-term framework in order to bring the deficit including the burden of the pension reform below 3% of GDP by 2008 in a credible and sustainable manner, in particular through additional measures to achieve the new adjustment path including the new deficit targets of 3.8% of GDP (4.7% of GDP including the burden of the pension reform) in 2005 and of 2.8% of GDP including the burden of the pension reform in 2008, and by seizing every opportunity to accelerate the fiscal adjustment;

(ii) make the timing and implementation of any tax cuts conditional upon the achievement of the deficit targets of the convergence programme update submitted in December 2004;

(iii) progress with the envisaged reforms of the public administration, health and education systems as committed also with a view to improving the long-term sustainability of the public finances.

### Comparison of key macroeconomic and budgetary projections

| | | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Real GDP (% change) | **CP Dec. 2004** | **3.9** | **4.0** | **4.2** | **4.3** | **4.6** |
| | COM | 3.9 | 3.7 | 3.8 | n.a. | n.a. |
| | *CP May 2004* | *3.3-3.5* | *3.5-4.0* | *cca.4* | *cca.3.5* | *cca.3.0* |
| HICP inflation (%) | **CP Dec. 2004** | **6.8** | **4.5** | **4.0** | **3.5** | **3.0** |
| | COM | 6.9 | 4.6 | 4.2 | n.a. | n.a. |
| | *CP May 2004* | *cca.6.5* | *cca.4.5* | *cca.4* | *cca.3.5* | *cca.3* |
| General government balance (% of GDP) | **CP Dec. 2004 adjusted [1]** | **-4.5** | **-3.8** | **-3.1** | **-2.4** | **-1.8** |
| | **non adjusted** | **-5.3** | **-4.7** | **-4.1** | **-3.4** | **-2.8** |
| | COM | -5.5 | -5.2 | -4.7 | n.a. | n.a. |
| | *CP May 2004* | *-4.6* | *-4.1* | *-3.6* | *-3.1* | *-2.7* |
| Primary balance (% of GDP) | **CP Dec. 2004 adjusted [1]** | **-0.3** | **0.0** | **0.3** | **0.7** | **1.1** |
| | **non adjusted** | **-1.1** | **-0.9** | **-0.7** | **-0.3** | **0.1** |
| | COM | -1.1 | -1.2 | -1.1 | n.a. | n.a. |
| | *CP May 2004* | *-0.5* | *-0.2* | *0.1* | *0.3* | *0.4* |
| Government gross debt (% of GDP) | **CP Dec. 2004 adjusted [1]** | **57.3** | **55.3** | **53.0** | **50.6** | **48.3** |
| | **non adjusted** | **59.9** | **58.6** | **56.8** | **54.9** | **53.2** |
| | COM | 59.7 | 59.5 | 58.9 | n.a. | n.a. |
| | *CP May 2004* | *59.4* | *57.9* | *56.8* | *55.6* | *53.7.* |

Note:

1 The decision by Eurostat of 23 September 2004 allows a temporary reclassification until the March 2007 fiscal notification of second pillar pension funds inside the general government. The Hungarian authorities decided to avail themselves of this possibility and presented the deficit figures by subtracting the burden created by the 1998 pension reform from the general government deficit. Compared to the May 2004 programme, this lowers the yearly deficit figures by 0.8-1 percentage point between 2004 and 2008. For the sake of comparison with the previous programme and with the Commission services autumn 2004 forecast, and given that the final 2008 target will not benefit from this reclassification, not only adjusted but also non-adjusted figures are shown.

*Sources:*

*Convergence programme (CP); Commission services autumn 2004 economic forecasts (COM); Commission services calculations.*