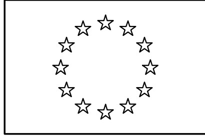

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 11.1.2006
SEC(2006) 26 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 Slovakia, 2005-2008

(presented by the Commission)

EXPLANATORY MEMORANDUM

Background

The Stability and Growth Pact, which entered into force on 1 July 1998, 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. In 2005, the Pact was amended for the first time. The reform acknowledged the Pact's 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 Pact, stipulates that Member States have to submit, to the Council and the Commission, stability or convergence programmes 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 Slovakia 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. In accordance with the same procedure, updated stability and convergence programmes are assessed by the Commission and examined by the Committee mentioned above, while the Council may examine them.

In these programmes, Member States need to specify their medium-term objective for the budgetary position and set out the policy measures to achieve and maintain it, including the accompanying economic assumptions. Following the reform of the Pact, the medium-term objective should be differentiated for individual Member States in the light of the economic and budgetary heterogeneity in the Union, including as regards the fiscal risk to sustainability. Other elements of the reform are that a more symmetrical approach to fiscal policy over the cycle through enhanced budgetary discipline in economic good times should be achieved, while "major structural reforms" with a verifiable impact on long-term sustainability should be taken into account for a temporary deviation from the medium-term objective or the adjustment path towards it.

Taking into account the Commission services' autumn 2005 forecast, the code of conduct[2], the commonly agreed methodology for the estimation of potential output and cyclically-adjusted balances and the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008, the Commission has examined the recently submitted update of the convergence programme of Slovakia and, based on its assessment below, has adopted a recommendation for a Council opinion on it.

[1] OJ L 209, 2.8.1994, p, 1. Regulation as amended by Regulation (EC) N° 1055/2005 (OJ L 174, 7.7.2005, p. 1) All the documents referred to in this text can be found on the following website: http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

[2] Opinion of the Economic and Financial Committee on 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.

Assessment

(1) Slovakia submitted its convergence programme on 1 December 2005. It covers the period 2005 to 2008 and, in addition, provides indicative projections until 2010. The document was adopted by the government on 30 November 2005. It incorporates the 2006 budget, which the parliament approved on 13 December 2005, and the government's multi-annual budgetary framework 2006-2008, which the government adopted on 12 October 2005. The programme broadly follows the model structure for stability and convergence programmes specified in the new code of conduct[3]. The programme has gaps in the compulsory and optional data prescribed by the new code of conduct[4].

(2) On 5 July 2004 the Council decided that Slovakia had an excessive deficit. According to the Council recommendation under Article 104(7) of the same date, the excessive deficit has to be corrected by 2007. In its opinion of 17 February 2005 on the previous update of the Slovakia's convergence programme covering the period 2004-2007, the Council invited Slovakia to "(i) seize every opportunity for an accelerated deficit reduction, including through the use of better-than-expected revenues and of savings on the expenditure side, in particular in 2005; (ii) make the medium-term expenditure ceilings more binding; (iii) be vigilant that second-round effects from the high inflation in 2004 do not affect the inflation convergence path envisaged in the programme".

(3) Slovak real GDP growth averaged 4.3% between 1994 and 2004 almost two percentage points above the EU25 average of 2.4%. The labour market situation remains the country's major problem. As a consequence of accelerated enterprise restructuring in the late 1990s, the unemployment rate increased from 13.7% in 1994 to 18.2% in 2004 while total employment decreased by two percentage points over the same period. The programme projects real GDP growth at an average rate of 5.6% over the programme period and, starting with a negative output gap in 2005, implies a marked swing in cyclical conditions. GDP growth is expected to increase from 5.1% in 2005 to 5.4% in 2006 and 6.1% in 2007, with net exports providing an increasing contribution to GDP growth and complement a strong positive contribution of domestic demand. Strong domestic demand should be sustained thanks to positive wage and labour market developments as well as an attractive business environment and growing public investment supported by EU funds. Covering the period until 2007, the Commission services autumn 2005 forecast broadly confirms the growth projections of the programme as well as the development of the underlying composition of growth. For 2008, the growth assumption of almost 5½% exceeds the Commission services' estimate of potential output growth. The programme expects inflation to rise to 3.6% in 2006 due to increases in administered prices induced by higher oil and natural gas prices. As these effects fade out, inflation is projected to ease to 2.0% in 2007 and 2008. The inflation projections presented in the programme

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3 However, sections on growth implications of "major structural reforms" and on sensitivity of budgetary projections to different scenarios and assumptions are missing. The chapter on institutional features of public finances is divided into different sections than the model structure.

4 Note, however, that compulsory data on nominal effective exchange rate are missing in order to avoid pre-empting the setting of the euro conversion rate. The data on FISIM and general government expenditure by function are also missing.

seem plausible although recently announced further upward adjustments of some regulated prices represent an upside risk.

(4) After a depreciation in March-April 2005, the koruna slowly appreciated until its ERM II entry on 28 November 2005. Following this move, the koruna initially further strengthened by about 1.5% and subsequently stabilized at between 1 and 2% above the central rate during the first weeks of ERM II participation. Since early 2005 long-term interest rates remained close to the euro area level compared to a spread of around 100 basis points in 2003 and 2004. As the recent increase in Slovak long-term interest rates outpaced that of the euro area, the spread widened again somewhat in the last quarter of 2005. Since 1 January 2005 the National Bank of Slovakia has defined the conduct of its monetary policy as “inflation targeting in the conditions of ERM II”.

(5) The general government deficit for 2005 is estimated, based on the Commission services’ forecast, at 4.1% of GDP but a comparison with previous convergence programmes is not straightforward because it includes a cancellation of some developing countries’ debt amounting to about 0.8% of GDP. Without the debt cancellation the deficit is estimated at around 3.3% of GDP which is slightly lower than foreseen in the previous update (3.4% of GDP). This positive development is, however, mainly driven by lower-than-expected interest expenditure.

(6) The programme aims at reducing the deficit to below the 3% of GDP reference value in 2007 (including the costs of the pension reform), in line with the Council recommendation under Article 104(7) from 5 July 2004. The general government deficit (net of the pension reform costs) is projected to decrease from 4.1% of GDP (including debt cancellations amounting to 0.8 % of GDP) in 2005 to 2.9% in 2006, then decline sharply to 1.6% of GDP in 2007 and afterwards to fall to 1.3% of GDP in 2008. The budgetary adjustment is mainly expenditure based. The expenditure-to-GDP ratio is projected to decrease by 3.4 percentage points between 2005 and 2008 (by 2.6 percentage points excluding debt cancellations of 0.8% of GDP in 2005). General government revenues are estimated to remain broadly stable until 2007 and then decrease by 0.7% of GDP in 2008. The budgetary impact of the classification of the funded second-pillar pension scheme outside the general government sector (which has to be implemented by the time of the spring 2007 fiscal notification) is estimated at 0.8%, 1.3%, 1.4% and 1.4% of GDP in 2005, 2006, 2007 and 2008 respectively. The planned fiscal consolidation is back-loaded, mainly concentrated in 2007. Compared to the previous convergence programme the back-loading of the fiscal consolidation effort required to reach the 2007 deficit target of 3.0% of GDP has grown stronger in view of higher estimates of the costs of the pension reform. The 2006 deficit target remained unchanged. Overall, the new update broadly confirms the planned adjustment in the previous programme against the background of a more favourable macroeconomic outlook. The budgetary effect of stronger economic growth projections is largely offset by an upward revision of the costs of the pension reform.

(7) Based on Commission services’ calculations on the basis of the programme according to the commonly agreed methodology, the structural balance would improve from around -2¾% of GDP in 2005 to about -1½% of GDP in 2008. The fiscal effort planned in the programme is mainly concentrated in 2007, when the output gap implied by the macroeconomic scenario of the programme is estimated to be close to zero but with cyclical conditions clearly expected to improve compared to the previous

year. The programme identifies a medium-term objective (MTO) for the budgetary position as meant in the Stability and Growth Pact of a structural balance of -0.9% of GDP, which it aims to achieve by 2010. As the programme's MTO is more demanding than the minimum benchmark (estimated at a deficit of around 2¼% of GDP), its achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. The programme's MTO is at an appropriate level because it lies within the range indicated for euro area and ERM II Member States in the Stability and Growth Pact and the code of conduct and adequately reflects the debt ratio and average potential output growth in the long term.

(8) According to this update the medium-term budgetary framework approved by the government is exclusively based on current legislation and on government approved legislative changes. However, it is not very explicit about the measures that would ensure the achievement of the 2007 deficit target. So far the government has overachieved the budgetary targets set in the previous programmes: after a lower-than-expected 2004 deficit a better-than-planned result is also projected for 2005 (excluding debt cancellations of 0.8% of GDP). Nevertheless, some of the financial resources that were freed by lower-than-expected interest expenditure in 2005 were used to cover other unbudgeted public expenditures highlighting the need for more binding ceilings for expenditure items. Overall, the risks to the predictions appear broadly balanced and the budgetary projections presented in the programme thus seem plausible.

(9) Taking into account the balance of risks Slovakia is on track to correct its excessive deficit by the deadline set by the Council. An increase in the deficit projection for 2005 results from the one-off effect of debt cancellations amounting to 0.8% of GDP. However, the budgetary strategy outlined in the programme may not be sufficient to ensure that the programme's MTO (-0.9% of GDP) will be reached in 2010. Including the budgetary impact of the Eurostat decision of 2 March 2004 on the classification of the funded second-pillar pension schemes (which has to be implemented by the time of the spring 2007 notification) the structural balance based on the Commission services' calculations on the basis of the programme is estimated at -2.9% of GDP in 2008 (-1.5% of GDP net of the costs of the pension reform). Substantial additional consolidation measures would thus be needed to reach the programme's MTO by 2010. The planned improvement in the structural balance of around ¼% of GDP in 2008 is below the 0.5% of GDP benchmark set in the Stability and Growth Pact, when the cyclical conditions may qualify as good economic times.

(10) The debt ratio is expected to fall quite significantly by nearly 9 percentage points to 33.7% of GDP in 2005. This large fall - even larger than expected in the Commission services' forecasts - is mainly because of a reduction in liquidities (deposits) managed by a new agency responsible for managing government debt (ARDAL). The reduction in liquid assets is recorded as a component of the stock-flow adjustment. The debt ratio is then expected to hover around 35 to 36% of GDP (35.5% in 2006, 35.2% in 2007 and 36.2% in 2008), as a result of a small primary balance, a debt-decreasing snow-ball effect (as the effective interest rate is below GDP growth). The stock-flow adjustment is expected to remain positive over the programme horizon in spite of some privatisation receipts expected in 2006.

(11) With regard to the sustainability of public finances, Slovakia appears to be at medium risk in view of the projected budgetary costs of ageing populations. The level of the debt is significantly below the 60% reference value and should remain so under the

assumption of unchanged policies for the coming two decades. Slovakia has recently enacted a two-step pension reform, which has contained future increase in public expenditure. However, the currently high structural deficit will prevent the reduction of the debt/GDP ratio, which increases the risk to long-term sustainability. Implementing rigorously the planned consolidation of public finances over the medium-term is necessary in order to reduce risks to long-term sustainability[5].

(12) The planned measures in the area of public finances are broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008. Slovakia is on track to correct its excessive deficit by the deadline set by the Council.

(13) The National Reform Programme of Slovakia, submitted on 14 October 2005 in the context of the renewed Lisbon strategy for growth and jobs, identifies the following challenges with significant implications for public finances: (i) information society; (ii) R&D and innovations; and (iii) education and employment. The budgetary implications of the actions outlined in the National Reform Programme are fully reflected in the budgetary projections of the convergence programme. The convergence programme describes the already adopted reforms of the tax and the pension system. The 2006 budget as well as the 2006-2008 budgetary framework foresee significant increases in expenditure on education and research and development and thus reflect priorities set in the National Reform Programme.

In view of the above assessment and in the light of the recommendations under Article 104(7), the Council is of the opinion that Slovakia should:

(i) strengthen the effort in the structural budgetary adjustment, in the absence of any margin with respect to the reference value targeted for 2007 (which is the deadline for the correction of the excessive deficit) and in order to fully take advantage of the upward revision of growth prospects compared to those underlying the Council recommendations, and

(ii) reinforce the binding character of the medium-term expenditure ceilings for central government.

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5 Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services, to be published at the website: http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

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 Slovakia, 2005-2008

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[6], 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 [24 January 2006] the Council examined the updated convergence programme of Slovakia, which covers the period 2005 to 2008. The programme broadly follows the model structure for stability and convergence programmes specified in the new code of conduct. The programme has gaps in the compulsory and optional data prescribed by the new code of conduct.

(2) Slovak real GDP growth averaged 4.3% between 1994 and 2004 almost 2 percentage points above the EU25 average of 2.4%. The labour market situation remains the country's major problem. As a consequence of accelerated enterprise restructuring in the late 1990s, the unemployment rate increased from 13.7% in 1994 to 18.2% in 2004 while total employment decreased by 2 percentage points over the same period. The macroeconomic scenario assumes that real GDP growth will average 5.6% per year over the programme period and, starting with a negative output gap in 2005, implies a marked swing in cyclical conditions. Assessed against currently available information, this scenario appears to be based on plausible growth assumptions. The programme's projections for inflation also appear realistic.

(3) On 5 July 2004, the Council decided that Slovakia was in excessive deficit. According to the Council recommendation under Article 104(7) of the same date, the excessive

[6] 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://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

deficit has to be corrected by 2007. In its opinion of 17 February 2005 on the previous update of the Slovakia's convergence programme covering the period 2004-2007, the Council invited Slovakia to "(i) seize every opportunity for an accelerated deficit reduction, including through the use of better-than-expected revenues and of savings on the expenditure side, in particular in 2005; (ii) make the medium-term expenditure ceilings more binding; (iii) be vigilant that second-round effects from the high inflation in 2004 do not affect the inflation convergence path envisaged in the programme".

(4) The programme aims at reducing the deficit to below the 3% of GDP reference value in 2007, in line with the Council recommendation under Article 104(7) from 5 July 2004. The general government deficit (net of the pension reform costs) is projected to decrease from 4.1% of GDP (including 0.8 % of GDP debt cancellations) in 2005 to 2.9% in 2006, then decline sharply to 1.6% of GDP in 2007 and to reach 1.3% of GDP in 2008. The profile of the primary balance is similar, which is expected to improve from -2.3% of GDP (-1.5% of GDP excluding debt cancellations amounting to 0.8 % of GDP) in 2005 to 0.7% in 2008. The budgetary adjustment is mainly expenditure based. The government expenditure-to-GDP ratio is expected to fall by 3.4 percentage points between 2005 and 2008 (by 2.6 percentage points excluding 0.8% of GDP of debt cancellations in 2005). General government revenues are estimated to remain broadly stable until 2007 and then decrease by 0.7% of GDP in 2008. The budgetary impact of the classification of the second-pillar funded pension scheme outside the general government sector (which has to be implemented by the time of the spring 2007 notification) is estimated at 0.8%, 1.3%, 1.4% and 1.4% of GDP in 2005, 2006, 2007 and 2008 respectively. The planned fiscal consolidation is back-loaded, mainly concentrated in 2007. Compared to the previous convergence programme the back-loading of the fiscal consolidation effort required to reach the 2007 deficit target of 3.0% of GDP (including the costs of the pension reform) has grown stronger in view of higher estimates of the costs of the pension reform.

(5) Over the programme period, the structural balance (i.e. the cyclically-adjusted budget balance net of one-off and other temporary measures) calculated according to the commonly agreed methodology is planned to improve on average by 0.4% of GDP per year, from -2.8% of GDP to -1.3% of GDP. The programme sets the medium-term objective (MTO) for the budgetary position in structural terms at a deficit of 0.9% of GDP and aims at achieving this position by 2010 (beyond the programme period). As the programme's MTO is more demanding than the minimum benchmark (estimated at a deficit of around 2¼% of GDP), its achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. The programme's MTO is at an appropriate level because it lies within the range indicated for euro area and ERM II Member States in the Stability and Growth Pact and the code of conduct and adequately reflects the debt ratio and average potential output growth in the long term.

(6) The risks to the budgetary projections in the programme appear broadly balanced. Although, the programme is not very explicit about the specific measures planned to be adopted in order to reach the 2007 deficit target, the update emphasizes that the medium-term budgetary framework approved by the government is based exclusively on currently valid legislation and on government approved legislative changes. The current government has so far, more-than-respected the budgetary targets set in the previous programmes: after a lower-than-expected 2004 deficit a better-than-planned result is also anticipated for 2005 (if debt cancellations of 0.8% of GDP are excluded).

Nevertheless, some of the financial resources that were freed by lower-than-expected interest expenditure in 2005 were used to cover other unbudgeted public expenditures highlighting the need for more binding ceilings for expenditure items.

(7) In view of this risk assessment, the budgetary stance in the programme seems consistent with a correction of the excessive deficit by 2007 as recommended by the Council. However, the budgetary stance in the programme may not be sufficient to ensure that the programme's MTO is achieved in 2010, as envisaged in the programme. In 2008 (the year following the correction of the excessive deficit), the pace of the adjustment towards the programme's MTO implied by the programme is not in line with the Stability and Growth Pact, which specifies that, for euro area and ERM II Member States, the annual improvement in the structural balance should be 0.5% of GDP as a benchmark and that the adjustment should be higher in good economic times and could be lower in bad economic times. In particular, in 2008 the improvement in the structural balance is only around ¼% of GDP, when cyclical conditions signal 'good times'[7].

(8) The debt ratio is estimated to have reached 33.7% of GDP in 2005, well below the 60% of GDP Treaty reference value. The programme projects the debt ratio to increase by 2.5 percentage points over the programme period.

(9) With regard to the sustainability of public finances, Slovakia appears to be at medium risk on grounds of the projected budgetary costs of ageing populations. The level of debt is significantly under the 60% reference value and should remain so under the assumption of unchanged policies for the coming two decades. Slovakia has recently enacted a two-step pension reform, which has contained future increase in public expenditure. However, the currently high structural deficit will prevent the reduction of the debt/GDP ratio, which increases the risk to long-term sustainability. Implementing rigorously the planned consolidation of public finances over the medium-term is necessary in order to reduce risks to long-term sustainability.

(10) The envisaged measures in the area of public finances are broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008. Slovakia is on track to correct its excessive deficit by the deadline set by the Council.

(11) The National Reform Programme of Slovakia, submitted on 14 October 2005 in the context of the renewed Lisbon strategy for growth and jobs, identifies the following challenges with significant implications for public finances: (i) information society; (ii) R&D and innovations; and (iii) education and employment. The budgetary implications of the actions outlined in the National Reform Programme are fully reflected in the budgetary projections of the convergence programme. The convergence programme describes already adopted reforms of tax and pension systems. The 2006 budget as well as the 2006-2008 budgetary framework foresee significant increases in the expenditure on education and research and development and thus reflect priorities set in the National Reform Programme.

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[7] Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services, to be published at the website: http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

In view of the above assessment and in the light of the recommendations under Article 104(7), the Council is of the opinion that Slovakia should:

(i) strengthen the effort in the structural budgetary adjustment, in the absence of any margin with respect to the reference value targeted for 2007 (which is the deadline for the correction of the excessive deficit) and in order to fully take advantage of the upward revision of growth prospects compared to those underlying the Council recommendations, and

(ii) reinforce the binding character of the medium-term expenditure ceilings for central government.

Comparison of key macroeconomic and budgetary projections[1]

		2004	2005	2006	2007	2008
Real GDP (% change)	**CP Dec 2005**	**5.5**	**5.1**	**5.4**	**6.1**	**5.6**
	COM Nov 2005	5.5	5.1	5.5	6.3	n.a.
	CP Nov 2004	*5.0*	*4.5*	*5.1*	*5.4*	*n.a.*
HICP inflation (%)	**CP Dec 2005**	**7.5**	**2.9**	**3.6**	**2.0**	**2.0**
	COM Nov 2005	7.5	2.9	3.6	2.1	n.a.
	CP Nov 2004	*7.8*	*3.3*	*2.8*	*2.5*	*n.a.*
Output gap (% of potential GDP)	**CP Dec 2005[2]**	**-1.9**	**-1.6**	**-1.1**	**0.1**	**0.8**
	COM Nov 2005[6]	-1.5	-1.3	-0.9	0.2	n.a.
	CP Nov 2004[2]	*0.4*	*0.2*	*0.4*	*0.9*	*n.a.*
General government balance (% of GDP)	**CP Dec 2005[2]**	**-3.2**	**-4.1**	**-2.9**	**-1.6**	**-1.3**
	COM Nov 2005	-3.1	-4.1	-3.0	-2.5	n.a.
	CP Nov 2004	*-3.8*	*-3.4*	*-2.9*	*-1.9*	*n.a.*
Primary balance (% of GDP)	**CP Dec 2005**	**-1.0**	**-2.3**	**-1.0**	**0.4**	**0.7**
	COM Nov 2005	-0.9	-1.9	-0.8	-0.2	n.a.
	CP Nov 2004	*-1.5*	*-1.0*	*-0.6*	*0.4*	*n.a.*
Cyclically-adjusted balance (% of GDP)	**CP Dec 2005[2]**	**-2.6**	**-3.6**	**-2.6**	**-1.6**	**-1.5**
	COM Nov 2005	-2.7	-3.8	-2.7	-2.5	n.a.
	CP Nov 2004[2]	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Structural balance[3] (% of GDP)	**CP Dec 2005[4]**	**-2.6**	**-2.8**	**-2.6**	**-1.7**	**-1.5**
	COM Nov 2005[5]	-2.7	-3.0	-2.7	-2.5	n.a.
	CP Nov 2004	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Government gross debt[7] (% of GDP)	**CP Dec 2005**	**42.6**	**33.7**	**35.5**	**35.2**	**36.2**
	COM Nov 2005	42.6	36.7	38.2	38.5	n.a.
	CP Nov 2004	*43.0*	*44.2*	*45.3*	*45.5*	*n.a.*

Notes:

[1] The budgetary projections exclude the impact of the Eurostat decision of 2 March 2004 on the classification of funded pension schemes, which needs to be implemented by the time of the spring 2007 notification. Including this impact, the general government balance according to the updated programme would be -3.2% of GDP in 2004, -4.9% in 2005, -4.2% in 2006, -3.0% in 2007 and -2.7% in 2008.

[2] Commission services calculations on the basis of the information in the programme.

[3] Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.

[4] One-off and other temporary measures taken from the programme (0.8% of GDP in 2005, deficit-increasing and 0.1% in 2007, deficit-reducing).

[5] One-off and other temporary measures taken from the Commission services' autumn 2005 forecast (0.8% of GDP in 2005, deficit-increasing).

[6] Based on estimated potential growth of 4.9%, 4.8%, 5.1% and 5.1% respectively in the period 2004-2007.

[7] The debt projections (in contrast with deficit projections) in the programme have been prepared taking into account the Eurostat decision of 2 March 2004 on the classification of funded pension schemes.

Source:

Convergence programme (CP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations.