COMMISSION OF THE EUROPEAN COMMUNITIES

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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 Lithuania, 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 Lithuania 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 Lithuania and, based on its assessment below, has adopted a recommendation for a Council opinion on it.

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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). 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 "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) The second update of the Lithuanian convergence programme, covering the period 2005-2008, was submitted on 1 December 2005. It was approved by the government on 12 December 2005. The programme broadly follows the model structure and data provision requirements for stability and convergence programmes specified in the new code of conduct[3].

(2) In its opinion of 8 March 2005 on the previous update of the convergence programme, covering the period 2004-2007, the Council invited Lithuania to make further progress towards a close to balance budgetary position, particularly in order to manage domestic demand pressures, to implement strictly the budget for 2005 in order to reduce the risk of breaching the 3% reference value and to use better-than-projected or additional revenues and unused expenditure items for deficit reduction.

(3) During the last decade, Lithuania successfully completed the transition to a functioning market economy and currently enjoys one of the highest growth rates in the EU. Real GDP growth averaged almost 8% in the period 2001-2004. GDP per capita in purchasing power standards was about 48% of the EU-25 average in 2004. There have not been significant macroeconomic imbalances, although the structural nature of unemployment and increasing demand pressures stemming from a rapid expansion of bank credit remain a matter of some concern. A significant deterioration of the general government deficit occurred partly as a consequence of the external shock induced by the Russian crisis in 1998. Afterwards, a budgetary consolidation plan was implemented. Since 2001 the deficit has remained at 2% of GDP or below and the cyclically adjusted deficit was brought to 1% of GDP in 2002.

(4) The macroeconomic scenario presented in the programme expects real GDP growth to reach 7% in 2005 and to decelerate progressively to 5.3% in 2007, bouncing back to 6.8% in 2008. Growth is expected to be led by domestic demand, particularly investment and private consumption. The growth outlook and its composition are plausible and broadly in line with the Commission services' autumn 2005 forecasts, but cautious in 2007. Cyclical conditions, as measured by the output gap calculated by Commission services according to the agreed methodology on the basis of the information in the programme, are favourable with a large positive output gap being gradually closed over the programme period.

(5) Lithuania has maintained full exchange rate stability within ERM II into early 2006 in the context of its currency board, which it operates as a unilateral commitment within the mechanism. Average annual HICP inflation increased to 2.7% in 2005, and there is a risk of a further acceleration in inflation in 2006. The programme projects inflation to be stable at 2.7% in 2005-2007, decreasing to 2.5% in 2008, which appears to be on the low side, also in view of recent developments regarding an increase in imported

[3] The programme provides all compulsory and most optional data prescribed by the new code of conduct, although the presentation of compulsory data is in a few cases slightly different from that in the new code of conduct. For instance domestic demand is shown instead of final domestic demand, interest expenditure corresponding to FISIM is missing and the tax burden shows what should be total taxes, i.e. the sum of direct, indirect and capital taxes, therefore indirect taxes paid to the EU budget and social contributions are missing in the calculation of the tax burden.

gas prices. Money market and bank lending rates have remained low and stable through 2005, reflecting the credibility of Lithuania's monetary framework.

(6) As regards budgetary implementation in 2005, the general government deficit for 2005 was estimated at 2% of GDP in the Commission services' autumn 2005 forecast, against a target of 2.1% of GDP set in the previous update of the convergence programme[4]. The updated programme presents a deficit estimated at 1.5% of GDP. However, preliminary data for the whole of 2005 point to an even better deficit outcome, at around 1% of GDP. The better-than-targeted outcome stems from a good budgetary performance of all levels of general government, which are estimated to have recorded higher-than-planned revenues while expenditure plans were broadly achieved.

(7) The main goal of the programme is to reduce the general government deficit in structural terms (i.e. in cyclically-adjusted terms and net of one-off and other temporary measures) to or below 1% of GDP, which is the country's medium-term objective (MTO) for the budgetary position as meant in the Stability and Growth Pact, by the end of the programme period. The update foresees the general government deficit to gradually decrease from 1.5% of GDP in 2005 to 1.0% in 2008. The time profile of the primary deficit is similar, with a decline from 0.6% of GDP in 2005 to 0.2% at the end of the programme period. Overall, the programme relies on a favourable economic outlook that would create good conditions for fiscal retrenchment. The consolidation foreseen in the programme is expenditure-driven, mostly due to a cut in collective consumption and social transfers as a percentage of GDP. A significant increase in government investment is planned, from 4.1% of GDP in 2005 to 5.2% in 2008, remaining well above the EU average (2.5% of GDP). The revenue ratio is planned to drop by 0.5% of GDP over the programme period. The more significant decline in taxes and social contributions (by 1¾% of GDP) as a result of the tax reform is almost offset by an increase in other revenues, mainly reflecting the inflow of EU structural funds. Against a broadly unchanged macroeconomic scenario, taking into account the reclassification of savings and real estate restitutions, the budgetary adjustment is slower compared to the previous update.

(8) Based on Commission services' calculations according to the commonly agreed methodology, the structural deficit would improve from about 2¼% of GDP in 2005 to 1¼% in 2008, while the ample positive output gap in 2005, estimated at 2.5% of potential GDP, is projected to close gradually over the programme period. As mentioned above, the update sets its MTO at a structural deficit of 1% of GDP or lower, which it aims to achieve by 2008. As the programme's MTO is more demanding than the minimum benchmark (estimated at a deficit of 1¾% 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 and adequately reflects the debt ratio and average potential output growth in the long term.

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[4] Following a decision by Eurostat in May 2005 on the classification of payments related to the compensation for lost rouble savings in the early years of transition and the restitution of real estate property confiscated in Soviet times, the deficit target set in the previous update (2.5% of GDP) has been adjusted to exclude payments related to these liabilities to allow for a meaningful comparison.

(9) The risks to the budgetary projections in the programme appear broadly balanced. On the one hand, the general government deficit outcome in 2005 is very likely to be lower than estimated in the programme. A likely carry-over to 2006 and the authorities' track record of cautious revenue planning in the last few years indicate that outcomes could be better than targeted in 2006. The programme's plans to use any higher-than-expected revenues or unspent expenditure over the period 2006-2008 for deficit reduction increases confidence in the achievement of the targets. On the other hand, the programme largely relies on a decrease in expenditure (as a percentage of GDP), particularly through public wage moderation, which could prove difficult to obtain. In addition, there are uncertainties about the impact of the pension reform, given the voluntary nature of participation in the funded pillar, and the impact of the tax reform towards the end of the programme period.

(10) Taking into account the risk assessment above, the budgetary strategy outlined in the programme may not be sufficient to ensure that the programme's MTO will be reached in 2008, as planned in the update. The programme requests a temporary deviation from the adjustment path towards the MTO on the basis of "major structural reforms" in the meaning of the revised Stability and Growth Pact and the new code of conduct. While the programme lists several reforms to support this claim, only the pension reform is sufficiently detailed in the programme and can be considered as having a beneficial impact on the long-term sustainability of the public finances (by contrast, a detailed cost-benefit analysis for the public finances of the tax reform is not provided in the programme). The net budgetary costs of the pension reform increase from 0.5% of GDP in 2005 to 0.8% in 2007 and 2008. The average structural adjustment planned over the programme period is 0.5% of GDP if the pension reform costs are taken into account (it is 0.4% excluding the pension reform), which would be in line with the "benchmark" for euro area and ERM II Member States set in the Stability and Growth Pact. However, given the strong likelihood of a better-than-estimated outturn in 2005, the structural improvement could be less than the benchmark if the deficit targets for 2006 and beyond are not strengthened accordingly. Furthermore, according to the Pact, the structural adjustment should be higher in good times, which are projected to continue to prevail over the programme period. The safety margin against breaching the 3% of GDP deficit threshold with normal macroeconomic fluctuations would only be provided from 2007, as the structural deficit (calculated by Commission services) is about 0.25 percentage point of GDP above the minimum benchmark in 2006. Thus, the temporary deviation from the adjustment path towards the MTO would be admissible in the meaning of the revised Stability and Growth Pact and the new code of conduct, conditional on meeting the minimum benchmark in 2006, which is possible if a better-than-planned deficit outcome in 2005 is carried over to 2006 and subsequent years.

(11) The update estimates Lithuania's debt ratio to be slightly above 19% of GDP at the end of 2005, well below the 60% of GDP reference value. The debt ratio is expected to remain at about 19-20% of GDP throughout the remainder of the programme horizon. The debt-increasing contribution of the primary deficit is expected to progressively fade out. The combined effect of interest rates and GDP growth will have a decreasing effect on the debt level over the programme's horizon, partly due to a pick up in inflation from very low levels of the last few years, while financial transactions are expected to increase the debt.

(12) With regard to the sustainability of public finances, Lithuania appears to be at low risk on grounds of the projected budgetary costs of ageing populations. The level of gross debt is currently very low and is projected to remain below the 60% of GDP reference value throughout most of the projection period and a contained government deficit is planned over the programme period. Lithuania has enacted a pension reform which contributes significantly to contain the budgetary impact of ageing populations. Further changes to the pension system are envisaged by the Lithuanian authorities, aiming at increasing the replacement rates for pensioners and at the same time gradually raising the retirement age. The implementation of these planned measures would be key in ensuring the financial sustainability of the public pension system.

(13) 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. In particular, taking into account the temporary deviation linked to pension reform, Lithuania is making progress towards its MTO. Also, the government is taking several measures to improve the quality of public finances (e.g. tax reform) and has also progressed with the pension reform in order to improve the sustainability of public finances in the long-term.

(14) The National Reform Programme (NRP) of Lithuania, submitted on 2 November 2005 in the context of the renewed Lisbon strategy for growth and jobs, highlights the need for reforms of the pension and healthcare systems to guarantee the sustainability of public finances in the long term. It also points to the need to promote employment and R&D activities and investment in human capital, which have budgetary implications. The measures presented in the NRP in the area of public finances are consistent with those presented in the programme, and mostly relate to next steps to be taken with the pension, health care and tax reforms. Measures aiming at improving budgetary procedures (e.g. to complete programme-based budget at the different levels of the general government and a flexible use of funds for co-financing of EU projects) are also in line with those described in the update. The budgetary implications of the limited number of concrete reform measures specified in the NRP are reflected in the budgetary projections of the convergence programme.

In view of the above assessment, and in the context of strong growth prospects, the Council invites Lithuania to:

– ensure sustainable convergence with the EU by strengthening the effort in the structural budgetary adjustment, in order to speed up the attainment of the MTO, and

– in particular, aim for a more demanding general government deficit target in 2006, making sure that a better-than-projected deficit outcome in 2005 is carried over to 2006 and subsequent years.

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 Lithuania, 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[5], 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 [14 March 2006] the Council examined the updated convergence programme of Lithuania, which covers the period 2005 to 2008.

(2) During the last decade, Lithuania successfully completed the transition to a functioning market economy and currently enjoys one of the highest growth rates in the EU. Real GDP growth averaged almost 8% in the period 2001-2004. GDP per capita in purchasing power standards was about 48% of the EU-25 average in 2004. There have not been significant macroeconomic imbalances, although the structural nature of unemployment and increasing demand pressures stemming from a rapid expansion of bank credit remain a matter of some concern. A significant deterioration of the general government deficit occurred as a consequence of the external shock induced by the Russian crisis in 1998. Afterwards, a budgetary consolidation plan was implemented. Since 2001 the deficit has remained at 2% of GDP or below and the cyclically adjusted deficit was brought to 1% of GDP in 2002.

(3) In its opinion of 8 March 2005 on the previous update of the convergence programme; covering the period 2004-2007, the Council invited Lithuania to make further progress towards a close to balance budgetary position, particularly in order to manage

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5 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

domestic demand pressures, to implement strictly the budget for 2005 in order to reduce the risk of breaching the 3% reference value and to use better-than-projected or additional revenues and unused expenditure items for deficit reduction.

(4) As regards budgetary implementation in 2005, the general government deficit for 2005 was estimated at 2% of GDP in the Commission services' autumn 2005 forecast, against a target of 2.1% of GDP set in the previous update of the convergence programme[6]. The updated programme presents a deficit estimated at 1.5% of GDP. However, preliminary data for the whole of 2005 point to an even better deficit outcome, at around 1% of GDP. The better-than-targeted outcome stems from a good budgetary performance of all levels of general government, which are estimated to have recorded higher-than-planned revenues while expenditure plans were broadly achieved.

(5) The programme broadly follows the model structure and data provision requirements for stability and convergence programmes specified in the new code of conduct[7].

(6) The macroeconomic scenario presented in the programme expects real GDP growth to reach 7% in 2005 and to decelerate progressively to 5.3% in 2007, bouncing back to 6.8% in 2008. Assessed against currently available information, this scenario appears to be based on plausible growth assumptions (and cautious assumptions for 2007). The programme's projections for inflation appear to be on the low side.

(7) The main goal of the programme is to reduce the general government deficit in structural terms (i.e. in cyclically-adjusted terms and net of one-off and other temporary measures) to or below 1% of GDP, which is the country's medium-term objective (MTO) for the budgetary position as meant in the Stability and Growth Pact, by the end of the programme period. The update foresees the general government deficit to gradually decrease from 1.5% of GDP in 2005 to 1.0% in 2008. The time profile of the primary deficit is similar, with a decline from 0.6% of GDP in 2005 to 0.2% at the end of the programme period. Overall, the programme relies on a favourable economic outlook that would create good conditions for fiscal retrenchment. The consolidation foreseen in the programme is expenditure-driven, mostly due to a cut in collective consumption and social transfers as a percentage of GDP. A significant increase in government investment is planned, from 4.1% of GDP in 2005 to 5.2% in 2008, remaining well above the EU average (2.5% of GDP). The revenue ratio is planned to drop by 0.5% of GDP over the programme period. The more significant decline in taxes and social contributions (by 1¾% of GDP) as a result of the tax reform is almost offset by an increase in other revenues, mainly reflecting the inflow of EU structural funds. Against a broadly unchanged macroeconomic

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6 Following a decision by Eurostat in May 2005 on the classification of payments related to the compensation for lost rouble savings in the early years of transition and the restitution of real estate property confiscated in Soviet times, the deficit target set in the previous update (2.5% of GDP) has been adjusted to exclude payments related to these liabilities to allow for a meaningful comparison.

7 The programme provides all compulsory and most optional data prescribed by the new code of conduct, although the presentation of compulsory data is in a few cases slightly different from that in the new code of conduct, for instance domestic demand is shown instead of final domestic demand, interest expenditure corresponding to FISIM is missing and the tax burden shows what should be total taxes, i.e. the sum of direct, indirect and capital taxes, therefore indirect taxes paid to the EU budget and social contributions are missing in the calculation of the tax burden.

scenario, taking into account the reclassification of savings and real estate restitutions, the budgetary adjustment is slower compared to the previous update.

(8) Based on Commission services' calculations according to the commonly agreed methodology, the structural deficit (i.e. the cyclically-adjusted deficit net of one-off and other temporary measures) would improve from about 2¼% of GDP in 2005 to 1¼% in 2008. The programme sets the medium-term objective (MTO) for the budgetary position at a structural deficit of 1% of GDP and aims at achieving this position by 2008. As the programme's MTO is more demanding than the minimum benchmark (estimated at a deficit of 1¾% 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 and adequately reflects the debt ratio and average potential output growth in the long term.

(9) The risks to the budgetary projections in the programme appear broadly balanced. On the one hand, the general government deficit outcome in 2005 is very likely to be lower than estimated in the programme. A likely carry-over to 2006 and the authorities' track record of cautious revenue planning in the last few years indicate that outcomes could be better than targeted in 2006. On the other hand, the programme largely relies on a decrease in expenditure (as a percentage of GDP), particularly through public wage moderation, which could prove difficult and there are uncertainties about the impact of the pension reform and tax reforms towards the end of the programme period.

(10) In view of this risk assessment, the budgetary stance in the programme may not be sufficient to ensure that the programme's MTO is achieved by 2008, as envisaged in the update. However, the budgetary stance in the programme seems to provide a sufficient safety margin against breaching the 3% of GDP deficit threshold with normal macroeconomic fluctuations from 2007. The pace of the adjustment towards the programme's MTO implied by the programme is not fully 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, the planned structural adjustment towards the MTO is on average 0.4% of GDP in the period 2006-2008, against the background of favourable cyclical conditions (evidenced by a large positive output gap that gradually closes over the programme period).

(11) According to the Stability and Growth Pact, "major structural reforms" with a verifiable impact on the long-term sustainability of the public finances should be taken into account when defining the adjustment path to the programme's MTO. The medium-term budgetary strategy outlined in the programme embodies a temporary deviation from the adjustment path towards the programme's MTO. While the programme lists several reforms to support the deviation, only the pension reform, consisting in the introduction of a funded pillar, is sufficiently detailed in the programme and can be considered as having a beneficial impact on the long-term sustainability of the public finances. The average annual structural adjustment towards the MTO over the period 2006-2008 is 0.5% of GDP if the net budgetary cost of the ongoing pension reform, which increases from 0.5% of GDP in 2005 to 0.8% in 2008, is taken into account. However, a safety margin against breaching the 3% of GDP

deficit threshold would not be provided in 2006, when the structural deficit (calculated by Commission services) exceeds the minimum benchmark by 0.25 percentage point of GDP. Thus, the temporary deviation would be admissible in the meaning of the revised Stability and Growth Pact and the new code of conduct, conditional on meeting the minimum benchmark in 2006, which is possible if a better-than-planned deficit outcome in 2005 is carried over to 2006 and subsequent years.

(12) The debt ratio is estimated to have reached about 19% of GDP in 2005, well below the 60% of GDP Treaty reference value. The programme projects the debt ratio to remain at about 19-20% of GDP throughout the remainder of the programme horizon.

(13) With regard to the sustainability of public finances, Lithuania appears to be at low risk on grounds of the projected budgetary costs of ageing populations. The level of gross debt is currently very low and is projected to remain below the 60% of GDP reference value throughout most the projection period and a contained government deficit is planned over the programme period. Lithuania has enacted a pension reform which contributes significantly to contain the budgetary impact of ageing populations. Further changes to the pension system are envisaged by the Lithuanian authorities, aiming at increasing the replacement rates for pensioners and at the same time gradually raising the retirement age. The implementation of these planned measures would be key in ensuring the financial sustainability of the public pension system.

(14) 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. In particular, taking into account the temporary deviation linked to pension reform, Lithuania is making progress towards its MTO. Also, the government is taking several measures to improve the quality of public finances (e.g. tax reform) and has also progressed with the pension reform in order to improve the sustainability of public finances in the long-term.

(15) The measures presented in the NRP in the area of public finances are consistent with those presented in the programme, and mostly relate to next steps to be taken with the pension, health care and tax reforms. Measures aiming at improving budgetary procedures (e.g. to complete programme-based budget at the different levels of the general government and a flexible use of funds for co-financing of EU projects) are also in line with those described in the update. The budgetary implications of the limited number of concrete reform measures specified in the NRP are reflected in the budgetary projections of the convergence programme.

In view of the above assessment, and in the context of strong growth prospects, the Council invites Lithuania to:

– ensure sustainable convergence with the EU by strengthening the effort in the structural budgetary adjustment, in order to speed up the attainment of the MTO, and

– in particular, aim for a more demanding general government deficit target in 2006, making sure that a better-than-projected deficit outcome in 2005 is carried over to 2006 and subsequent years.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008
Real GDP (% change)	**CP Dec. 2005**	**7.0**	**7.0**	**6.0**	**5.3**	**6.8**
	COM Nov 2005	7.0	7.0	6.2	5.8	n.a.
	CP Jan 2005	*6.5*	*6.5*	*6.2*	*6.0*	*n.a.*
HICP inflation (%)	**CP Dec. 2005**	**1.1**	**2.7**	**2.7**	**2.7**	**2.5**
	COM Nov 2005	1.1	2.6	2.8	2.9	n.a.
	CP Jan. 2005	*1.2*	*2.9*	*2.5*	*2.9*	*n.a.*
Output gap (% of potential GDP)	**CP Dec. 2005**[3]	**2.5**	**2.9**	**2.1**	**0.5**	**0.6**
	COM Nov 2005[6]	2.1	2.2	1.4	0.2	n.a.
	CP Jan. 2005[3]	*1.6*	*1.3*	*0.5*	*-0.1*	*n.a.*
General government balance[1] (% of GDP)	**CP Dec. 2005**	**-1.4**	**-1.5**	**-1.4**	**-1.3**	**-1.0**
	COM Nov 2005	-1.4	-2.0	-1.8	-1.6	n.a.
	CP Jan.2005[7]	*-2.5*	*-2.5*	*-1.8*	*-1.5*	*n.a.*
Primary balance (% of GDP)	**CP Dec 2005**	**-0.4**	**-0.6**	**-0.6**	**-0.6**	**-0.2**
	COM Nov 2005	-0.4	-1.1	-1.0	-0.8	n.a.
	CP Jan 2005[7]	*-1.5*	*-1.4*	*-0.8*	*-0.5*	*n.a.*
Cyclically-adjusted balance (% of GDP)	**CP Dec. 2005**[3]	**-2.1**	**-2.3**	**-2.0**	**-1.4**	**-1.2**
	COM Nov 2005	-2.0	-2.6	-2.2	-1.7	n.a.
	CP Jan 2005[3]	*n.a*	*n.a*	*n.a*	*n.a*	*n.a.*
Structural balance[2] (% of GDP)	**CP Dec. 2005**[4]	**-2.1**	**-2.3**	**-2.0**	**-1.4**	**-1.2**
	COM Nov 2005[5]	-2.0	-2.6	-2.2	-1.7	n.a.
	CP Jan 2005	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Government gross debt (% of GDP)	**CP Dec 2005**	**19.5**	**19.2**	**19.9**	**19.8**	**18.9**
	COM Nov 2005	19.6	20.7	20.2	19.6	n.a.
	CP Jan 2005	*20.1*	*20.9*	*20.3*	*20.1*	*n.a.*

Notes:
[1] The costs of the ongoing pension reform (introduction of a second pillar) are included in the deficit. The costs are estimated at 0.3% in 2004, 0.5% of GDP in 2005, 0.7% in 2006, 0.8% in 2007 and 0.8% in 2008.
[2] Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures. The adjustment taking out the pension reform costs according to the updated programme would be 0.5% of GDP in 2006, 0.7% in 2007 and 0.2% in 2008, or 0.5% on average in the period 2006-2008.
[3] Commission services calculations on the basis of the information in the programme.
[4] There are no one-off and other temporary measures in the programme.
[5] There are no one-off and other temporary measures in the Commission services' forecast.
[6] Based on estimated potential growth of 7.0%, 6.9%, 7.0% and 7.0% respectively in the period 2004-2007.
[7] It included payments related to savings compensations and real estate restitutions amounting to 0.4% of GDP in 2005, 0.8% in 2006 and 1.2% in 2007.

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