



COMMISSION OF THE EUROPEAN COMMUNITIES

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Recommendation for a

**COUNCIL OPINION**

**in accordance with the third paragraph of Art. 5 of  
Council Regulation (EC) No 1466/97 of 7 July 1997**

**On the updated stability programme of Portugal, 2005-2009**

(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<sup>1</sup>, 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 stability programme of Portugal was submitted in December 1998. In accordance with the Regulation, the Council delivered an opinion on it on 8 February 1999 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<sup>2</sup>, 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 stability programme of Portugal and, based on its assessment below, has adopted a recommendation for a Council opinion on it.

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<sup>1</sup> 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](http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm)

<sup>2</sup> "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 Portuguese authorities submitted the most recent update of the Portuguese stability programme on 15 December 2005<sup>3</sup>. The update covers the period from 2005 to 2009. The programme provides the compulsory data required for stability and convergence programmes specified in the new code of conduct, although it deviates on material points from the model structure<sup>4</sup>.
- (2) On 20 September 2005, the Council decided that Portugal was in excessive deficit. According to the Council recommendation under Article 104(7) of the same date, the excessive deficit has to be corrected by 2008. Following the expiry of the six-month period foreseen by the recommendation, the Commission is due to carry out an assessment of the action taken by the Portuguese authorities in order to achieve the 2006 deficit target. In its opinion of 12 July 2005 on the previous update of the stability programme, covering the period 2005-2009, the Council invited Portugal to limit the deterioration of the fiscal position in 2005; achieve a sustained correction of the excessive deficit, taking a substantial step in 2006; bring the gross debt ratio onto a firm downward path; control the evolution of expenditure and improve the quality and ensure the long-term sustainability of public finances; and to further improve the processing of general government data.
- (3) After averaging 4% per year over the period 1995-2000, accompanied by a pro-cyclical fiscal expansion, Portuguese economic growth declined significantly to only 0.5% per year between 2001 and 2005, lagging behind the euro area average. GDP per capita in purchasing power terms is expected to have fallen below 70% of the area average in 2005. Apart from adverse cyclical influences from abroad, the subdued performance reflects a weak competitive position, which explains the sizeable external deficit, and the low potential growth. The fiscal position has been weak since the turn of the decade, with the persistence of a high structural deficit. The challenge for policy is to raise the growth potential and thereby facilitate the unwinding of the main imbalances in the economy.
- (4) The macroeconomic scenario presented in the update projects real GDP growth to pick up over the programme period, from 0.5% in 2005 to 1.1% in 2006 and 1.8% in 2007 to eventually 3% in 2009. Growth is assumed to be driven by domestic demand and exports, although the external contribution is expected to be close to neutral over the programme period. The output gap is foreseen to narrow from around -2½% of GDP in 2006-2007 to less than -1% at the programme horizon. The growth assumptions for 2006 and 2007 are above those from the Commission services' autumn 2005 forecast. For the outer years, GDP growth is clearly above the potential estimated by the Commission services according to the commonly agreed methodology based on the programme. The upward trend of domestic demand may turn out flatter than assumed in the programme against a backdrop of a relatively high private indebtedness and a possible tightening of financial conditions. The external sector's contribution to GDP

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<sup>3</sup> The code of conduct allows Portugal to deliver no later than 15 December.

<sup>4</sup> In particular, the programme does not follow the model structure of the new code of conduct, it rather presents four sections: Summary; Economic and budgetary backdrop; Economic and budgetary outlook and Sustainability of public finances. The programme provides all compulsory data and most optional data prescribed by the new code of conduct.

growth is a major source of uncertainty as the weak competitive position makes it difficult to increase or even maintain export market shares as assumed in the programme. Overall, the programme's growth assumptions are favourable, especially in the outer years of the programme. Inflationary pressures are foreseen to remain low, but there are risks for 2006, coming from recent tax rate increases, and towards the end of the programme period. The large external deficit is expected to remain broadly unchanged.

- (5) In 2005, the general government deficit is estimated to have reached 6% of GDP according to the Commission services' autumn 2005 forecast, against a target of 6.2% of GDP set in the previous update of June 2005. This small difference is entirely due to an upward revision of the GDP series. In addition to the sizeable increase in expenditure in 2005, the sharp deterioration from the previous years was largely due to the government no longer raising revenues through sizeable one-off measures.
- (6) The programme aims at a lasting correction of the large fiscal imbalance, reducing the general government deficit to below the 3% of GDP reference value in the year 2008 and pursuing further fiscal consolidation thereafter. It envisages the consolidation of public finances to take place on the back of structural measures with substantial steps in each year. After widening to 6% of GDP in 2005, the general government deficit is targeted to decline to 4.6% in 2006 and further to 3.7% of GDP in 2007, 2.6% in 2008 and 1.5% of GDP in 2009. The projected time profile for the primary balance is similar, with an improvement from a deficit of 3.2% of GDP to a surplus of 1.5% of GDP between 2005 and 2009. The fiscal adjustment is helped by both the revenue and the expenditure side. In the short term, in particular in 2006, consolidation is relying mainly on additional revenues generated by higher tax rates and improved tax collection. Expenditure restraint extending to all major primary expenditure categories is expected to support fiscal consolidation in a progressive manner over the period, with the most sizeable savings to come from changes in public administration, including personnel, and changes in social protection schemes. According to the programme, the fiscal targets do not include one-off or temporary deficit-decreasing transactions. Compared with the previous update, the December 2005 update of the stability programme largely confirms the planned adjustment against lower growth assumptions, although still favourable against currently available information.
- (7) Based on Commission services' calculations on the basis of the programme according to the commonly agreed methodology, the structural balance (i.e. the cyclically-adjusted balance, net of one-off and other temporary measures) is planned to improve by some 3½ percentage points over the programme period. A tight fiscal stance is foreseen to prevail over the entire programme period, with some front-loading: the structural deficit is targeted to move from some 5% of GDP in 2005 to around 3½% of GDP in 2006, and further to almost 2½% in 2007, 1¾% in 2008 and 1¼% of GDP in 2009. The planned fiscal efforts are projected to take place against a backdrop of a narrowing negative output gap. The programme identifies a medium-term objective (MTO) for the budgetary position as meant in the Stability and Growth Pact of "at least -0.5% of GDP", which it does not aim to achieve within the programme period. As the programme's MTO is more demanding than the minimum benchmark (estimated at a deficit of around 1% 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) The assessment of the stability programme highlights several risks that the budgetary outcomes could be worse than projected in the programme. While the programme assumptions about the tax intensity of economic activity seem broadly plausible, the growth outlook underpinning the budgetary targets is favourable, especially in the outer years. Moreover, the update outlines an ambitious medium-term plan to curb expenditure growth and several measures have been recently enacted, but nevertheless important measures related to the strategy still have to be defined and implemented, in particular changes in public administration, which are expected to yield substantial savings from 2007 onwards. Their full implementation will be crucial for the attainment of the budgetary targets. Finally, the programme outlines measures that should improve the framework of budgetary execution and control, which if properly implemented are expected to contribute to the achievement of the budgetary objectives.
- (9) Taking the programme's budgetary targets at face value, and assuming (i) a full implementation of the measures announced therein for 2006 and (ii) that further significant measures in 2007 and beyond are adopted, also to take into account the possible lower-than-expected economic growth, the budgetary stance in the programme seems consistent with a correction of the excessive deficit by 2008 as recommended by the Council in recommendation under Article 104(7) of 20 September 2005. Provided the risks to the budgetary targets highlighted above are duly addressed, the pace of the adjustment towards the programme's MTO is fully in line with the Stability and Growth Pact. The latter 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 may be lower in bad economic times. However, the budgetary stance in the programme seems insufficient to ensure that the programme's MTO is achieved by the end of the programme period. In addition, it does not seem to provide a sufficient safety margin against breaching the 3% of GDP deficit threshold with normal macroeconomic fluctuations in the year following the planned correction of the excessive deficit.
- (10) The debt ratio is estimated to have reached 65.5% of GDP in 2005, above the 60% of GDP Treaty reference value. The programme projects the debt ratio to further increase to some 69% of GDP in 2007 and to decline thereafter to slightly above 66% of GDP in 2009. The drivers of the rising debt ratio are the primary deficit and a sizeable positive stock-flow adjustment, with the reduction in the outer years being triggered by the return to primary surpluses, the acceleration of GDP growth and by the end of stock-flow adjustments, helped also by privatization proceeds. The evolution of the debt ratio might be less favourable than projected in the programme given the risks to the budgetary targets mentioned above, the uncertainty about the stock-flow adjustment and the possible lower-than-expected economic growth. Although the debt reduction strategy in the update is consistent with the Council recommendation under Article 104(7) of 20 September 2005, as debt developments reflect progress in reducing the deficit and a fall of debt-increasing financial operations, the debt ratio keeps rising in the short term. Therefore, and in view of this risk assessment, ensuring the attainment of the budgetary targets specified in the programme seems necessary to achieve a sufficiently diminishing debt ratio towards the reference value.

- (11) With regard to the sustainability of public finances, Portugal appears to be at high risk on grounds of the projected budgetary costs of ageing populations. The currently high level of gross debt and the weak budgetary position indicate the necessity for implementing rigorously the planned consolidation of public finances over the medium-term and to ensure the attainment of the budgetary targets in order to reduce risks to public finance sustainability. However, the projected increases in pension and health care expenditures over the projection period clearly indicate the necessity of a comprehensive strategy in dealing with the challenge posed by ageing populations that goes beyond improving the currently weak budgetary position. The ongoing introduction of changes to the pension and health-care systems should go some way in making these systems more sustainable. However, further reforms are required to curb the projected growth of age-related expenditures.
- (12) 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, they aim at a correction of the excessive deficit in a structural way as further specified in the Council recommendation under Article 104(7) of 20 September 2005 and the outlined fiscal policy is expected to contribute to a correction of the external deficit. Nevertheless, the planned evolution of government debt in the first half of the programme period represents a notable deviation from what is expected in the guidelines.
- (13) The National Reform Programme of Portugal, submitted on 21 October 2005 in the context of the renewed Lisbon strategy for growth and jobs, identifies the following challenges in the area of public finances: (i) enhancing economic growth and promoting the sustainability of public finances; and (ii) the reform of public administration. The measures envisaged in the stability programme are in line with the actions foreseen in the National Reform Programme in the area of public finances. In fact, the NRP took on board the substance of June 2005 update. The most recent update of the stability programme confirms the strategy. However, it does not spell out the budgetary implications of the actions outlined in the National Reform Programme in the various policy areas.

In view of the above assessment, the programme is broadly consistent with a correction of the excessive deficit by 2008, subject to a full implementation of the measures announced in the programme and the adoption of further measures still necessary to underpin the fiscal strategy. In the light of the recommendations under Article 104(7) of 20 September 2005, it would be appropriate for Portugal to:

- adopt and implement with rigour the structural measures envisaged in the programme in order to ensure the correction of the excessive deficit by 2008 in a credible and sustainable manner; create margins to deal with the budgetary impact of possible lower-than-projected economic growth;
- enact decisively the planned measures to control expenditure; improve the budgetary process at all levels of general government, possibly through the more extensive use of binding expenditure ceilings and, as outlined in the programme, by strengthening mechanisms of monitoring, controlling and reporting expenditure and revenue;

- improve the long-term sustainability of public finances, in particular by implementing the measures already envisaged in the programme and by enacting further reforms in the area of pensions and health care;
- bring the government gross debt ratio onto a firm downward path by ensuring that it reflects both the progress in the reduction of the government deficit and the projected privatisation proceeds, and by considering carefully the impact on debt of major public investment projects, including those in partnership with the private sector.

Recommendation for a

## COUNCIL OPINION

**in accordance with the third paragraph of Art. 5 of  
Council Regulation (EC) No 1466/97 of 7 July 1997**

**On the updated stability programme of Portugal, 2005-2009**

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<sup>5</sup>, and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

- (1) On [xx March 2006] the Council examined the updated stability programme of Portugal, which covers the period 2005 to 2009
- (2) After averaging 4% per year over the period 1995-2000, accompanied by a pro-cyclical fiscal expansion, Portuguese economic growth declined significantly to only 0.5% per year between 2001 and 2005, lagging behind the euro area average. GDP per capita in purchasing power terms is expected to have fallen below 70% of the area average in 2005. Apart from adverse cyclical influences from abroad, the subdued performance reflects a weak competitive position, which explains the sizeable external deficit, and the low potential growth. The fiscal position has been weak since the turn of the decade, with the persistence of a high structural deficit.
- (3) On 20 September 2005, the Council decided that Portugal was in excessive deficit. According to the Council recommendation under Article 104(7) of the same date, the excessive deficit has to be corrected by 2008. Following the expiry of the six-month period foreseen by the recommendation, the Commission is due to carry out an assessment of the action taken by the Portuguese authorities in order to achieve the 2006 deficit target. In its opinion of 12 July 2005 on the previous update of the

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<sup>5</sup> 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](http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm)



stability programme, covering the period 2005-2009, the Council invited Portugal to limit the deterioration of the fiscal position in 2005; achieve a sustained correction of the excessive deficit, taking a substantial step in 2006; bring the gross debt ratio onto a firm downward path; control the evolution of expenditure and improve the quality and ensure the long-term sustainability of public finances; and to further improve the processing of general government data.

- (4) In 2005, the general government deficit is estimated to have reached 6% of GDP according to the Commission services' autumn 2005 forecast, against a target of 6.2% of GDP set in the previous update of June 2005. This small difference is entirely due to an upward revision of the GDP series. In addition to the sizeable increase in expenditure in 2005, the sharp deterioration from the previous years was largely due to the government no longer raising revenues through sizeable one-off measures.
- (5) The programme provides the compulsory data required for stability and convergence programmes specified in the new code of conduct, although it deviates on material points from the model structure<sup>6</sup>.
- (6) The macroeconomic scenario presented in the update projects real GDP growth to pick up over the programme period, from 0.5% in 2005 to 1.1% in 2006 and 1.8% in 2007 to eventually 3% in 2009. Growth is assumed to be driven by domestic demand and exports, although the external contribution is expected to be close to neutral over the programme period. The negative output gap is foreseen to narrow from around -2½% of GDP in 2006-2007 to less than -1% at the programme horizon. Assessed against currently available information, the programme's growth assumptions are favourable, especially in the outer years of the programme. Inflationary pressures are foreseen to remain low, but there are risks for 2006, coming from recent tax rate increases, and towards the end of the programme period. The large external deficit is expected to remain broadly unchanged.
- (7) The programme aims at a lasting correction of the large fiscal imbalance, reducing the general government deficit to below the 3% of GDP reference value in the year 2008 and pursuing further fiscal consolidation thereafter. It envisages the consolidation of public finances to take place on the back of structural measures with substantial steps in each year. After widening to 6% of GDP in 2005, the general government deficit is targeted to decline to 4.6% in 2006 and further to 3.7% of GDP in 2007, 2.6% in 2008 and 1.5% of GDP in 2009. The projected time profile for the primary balance is similar, with an improvement from a deficit of 3.2% of GDP to a surplus of 1.5% of GDP between 2005 and 2009. The fiscal adjustment is helped by both the revenue and the expenditure side. In the short term, in particular in 2006, consolidation is relying mainly on additional revenues generated by higher tax rates and improved tax collection. Expenditure restraint extending to all major primary expenditure categories is expected to support fiscal consolidation in a progressive manner over the period, with the most sizeable savings to come from changes in public administration, including personnel, and changes in social protection schemes. Compared with the

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<sup>6</sup> In particular, the programme does not follow the model structure of the new code of conduct, it rather presents four sections: Summary; Economic and budgetary backdrop; Economic and budgetary outlook and Sustainability of public finances. The programme provides all compulsory data and most optional data prescribed by the new code of conduct.

previous update, the December 2005 update of the stability programme largely confirms the planned adjustment against lower growth assumptions, although still favourable against currently available information.

- (8) Over the programme period, the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) calculated by the Commission services on the basis of the information in the programme according to the commonly agreed methodology is planned to improve by some 3½ percentage points. A tight fiscal stance is foreseen to prevail over the entire programme period, with some front-loading: the structural deficit is targeted to move from some 5% of GDP in 2005 to around 3½% of GDP in 2006, and further to almost 2½% in 2007, 1¾% in 2008 and 1¼% of GDP in 2009. The planned fiscal efforts are projected to take place against a backdrop of a narrowing negative output gap. The programme identifies a medium-term objective (MTO) for the budgetary position as meant in the Stability and Growth Pact of “at least -0.5% of GDP”, which it does not aim to achieve within the programme period. As the programme’s MTO is more demanding than the minimum benchmark (estimated at a deficit of around 1% 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.
- (9) The budgetary outcomes could be worse than projected in the programme. While the programme assumptions about the tax intensity of economic activity seem broadly plausible, the growth outlook underpinning the budgetary targets is favourable, especially in the outer years. Moreover, the update outlines an ambitious medium-term plan to curb expenditure growth and several measures have been recently enacted, but nevertheless important measures related to the strategy still have to be defined and implemented, in particular changes in public administration which are expected to yield substantial savings from 2007 onwards. Their full implementation will be crucial for the attainment of the budgetary targets. Finally, the programme outlines measures that should improve the framework of budgetary execution and control, which if properly implemented are expected to contribute to the achievement of the budgetary objectives.
- (10) Taking into account the balance of risks, the correction of the excessive deficit by the 2008 deadline set by the Council hinges upon an effective implementation of all the measures announced in the programme for 2006, and of substantial corrective measures for 2007 and beyond. Provided the risks to the budgetary targets highlighted above are duly addressed, the pace of the adjustment towards the programme’s MTO is fully in line with the Stability and Growth Pact. However, the budgetary stance in the programme will not suffice to achieve the programme’s MTO by the end of the programme period. In addition, it does not seem to provide a sufficient safety margin against breaching the 3% of GDP deficit threshold with normal macroeconomic fluctuations in the year following the planned correction of the excessive deficit.
- (11) The debt ratio is estimated to have reached 65.5% of GDP in 2005, above the 60% of GDP Treaty reference value. The programme projects the debt ratio to further increase to some 69% of GDP in 2007 and to decline thereafter to slightly above 66% of GDP in 2009. The evolution of the debt ratio might be less favourable than projected in the

programme given the risks to the budgetary targets mentioned above, the uncertainty about the stock-flow adjustment and the possible lower-than-expected economic growth. In view of this risk assessment, ensuring the attainment of the budgetary targets specified in the programme seems necessary to achieve a sufficiently diminishing debt ratio towards the reference value.

- (12) With regard to the sustainability of public finances, Portugal appears to be at high risk on grounds of the projected budgetary costs of ageing populations. The currently high level of gross debt and the weak budgetary position indicate the necessity for implementing rigorously the planned consolidation of public finances over the medium-term and to ensure the attainment of the budgetary targets in order to reduce risks to public finance sustainability. However, the projected increases in pension and health care expenditures over the projection period clearly indicate the necessity of a comprehensive strategy in dealing with the challenge posed by ageing populations that goes beyond improving the currently weak budgetary position. The ongoing introduction of changes to the pension and health-care systems should go some way in making these systems more sustainable. However, further reforms are required to curb the projected growth of age-related expenditures.
- (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, they aim at a correction of the excessive deficit in a structural way as further specified in the Council recommendation under Article 104(7) of 20 September 2005 and the outlined fiscal policy is expected to contribute to a correction of the external deficit. Nevertheless, the planned evolution of government debt in the first half of the programme period represents a notable deviation from what is expected in the guidelines.
- (14) The National Reform Programme of Portugal, submitted on 21 October 2005 in the context of the renewed Lisbon strategy for growth and jobs, identifies the following challenges in the area of public finances: (i) enhancing economic growth and promoting the sustainability of public finances; and (ii) the reform of public administration. The measures envisaged in the stability programme are in line with the actions foreseen in the National Reform Programme in the area of public finances. In fact, the NRP took fully on board the substance of June 2005 update. The most recent update of the stability programme confirms the strategy. However, it does not spell out the budgetary implications of the actions outlined in the National Reform Programme in the various policy areas.

In view of the above assessment, the Council notes that the programme is broadly consistent with a correction of the excessive deficit by 2008, subject to a full implementation of the measures announced in the programme and the adoption of further measures still necessary to underpin the fiscal strategy. In the light of the recommendations under Article 104(7) of 20 September 2005, the Council invites Portugal to:

- adopt and implement with rigour the structural measures envisaged in the programme in order to ensure the correction of the excessive deficit by 2008 in a credible and sustainable manner; create margins to deal with the budgetary impact of possible lower-than-projected economic growth;

- enact decisively the planned measures to control expenditure; improve the budgetary process at all levels of general government, possibly through the more extensive use of binding expenditure ceilings and, as outlined in the programme, by strengthening mechanisms of monitoring, controlling and reporting expenditure and revenue;
- improve the long-term sustainability of public finances, in particular by implementing the measures already envisaged in the programme and by enacting further reforms in the area of pensions and health care;
- bring the government gross debt ratio onto a firm downward path by ensuring that it reflects both the progress in the reduction of the government deficit and the projected privatisation proceeds, and by considering carefully the impact on debt of major public investment projects, including those in partnership with the private sector.

### Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008	2009
Real GDP (% change)	<b>SP Dec 2005</b>	<b>1.2</b>	<b>0.5</b>	<b>1.1</b>	<b>1.8</b>	<b>2.4</b>	<b>3.0</b>
	COM Nov 2005	1.2	0.4	0.8	1.2	n.a.	n.a.
	<i>SP Jun 2005</i>	<i>1.0</i>	<i>0.8</i>	<i>1.4</i>	<i>2.2</i>	<i>2.6</i>	<i>3.0</i>
HICP inflation (%)	<b>SP Dec 2005*</b>	2.4	2.3	2.3	2.2	2.2	2.1
	COM Nov 2005	2.5	2.2	2.7	2.2	n.a.	n.a.
	<i>SP Jun 2005</i>	<i>2.5</i>	<i>2.5</i>	<i>2.9</i>	<i>2.5</i>	<i>2.5</i>	<i>2.4</i>
Output gap (% of potential GDP)	<b>SP Dec 2005<sup>1</sup></b>	<b>-1.5</b>	<b>-2.3</b>	<b>-2.7</b>	<b>-2.5</b>	<b>-1.8</b>	<b>-0.7</b>
	COM Nov 2005 <sup>6</sup>	-1.3	-2.0	-2.4	-2.6	n.a.	n.a.
	<i>SP Jun 2005<sup>1</sup></i>	<i>-2.1</i>	<i>-2.7</i>	<i>-2.8</i>	<i>-2.3</i>	<i>-1.6</i>	<i>-0.7</i>
General government balance (% of GDP)	<b>SP Dec 2005</b>	<b>-3.0</b>	<b>-6.0</b>	<b>-4.6</b>	<b>-3.7</b>	<b>-2.6</b>	<b>-1.5</b>
	COM Nov 2005	-3.0	-6.0	-5.0	-4.8	n.a.	n.a.
	<i>SP Jun 2005</i>	<i>-2.9</i>	<i>-6.2</i>	<i>-4.8</i>	<i>-3.9</i>	<i>-2.8</i>	<i>-1.6</i>
Primary balance (% of GDP)	<b>SP Dec 2005</b>	-0.3	-3.2	-1.7	-0.6	0.6	1.5
	COM Nov 2005	-0.3	-3.1	-2.0	-1.6	n.a.	n.a.
	<i>SP Jun 2005</i>	<i>-0.1</i>	<i>-3.3</i>	<i>-1.6</i>	<i>-0.5</i>	<i>0.7</i>	<i>1.8</i>
Cyclically-adjusted balance (% of GDP)	<b>SP Dec 2005<sup>1</sup></b>	<b>-2.3</b>	<b>-5.0</b>	<b>-3.4</b>	<b>-2.6</b>	<b>-1.8</b>	<b>-1.2</b>
	COM Nov 2005	-2.4	-5.1	-3.8	-3.6	n.a.	n.a.
	<i>SP Jun 2005<sup>1</sup></i>	<i>-2.2</i>	<i>-5.3</i>	<i>-3.8</i>	<i>-3.1</i>	<i>-2.3</i>	<i>-1.4</i>
Structural balance <sup>2</sup> (% of GDP)	<b>SP Dec 2005<sup>3</sup></b>	<b>n.a.</b>	<b>-5.0</b>	<b>-3.4</b>	<b>-2.6</b>	<b>-1.8</b>	<b>-1.2</b>
	COM Nov 2005 <sup>4</sup>	-4.6	-5.5	-4.2	-3.7	n.a.	n.a.
	<i>SP Jun 2005<sup>5</sup></i>	<i>-4.5</i>	<i>-5.5</i>	<i>-3.8</i>	<i>-3.1</i>	<i>-2.3</i>	<i>-1.4</i>
Government gross debt (% of GDP)	<b>SP Dec 2005</b>	<b>59.4</b>	<b>65.5</b>	<b>68.7</b>	<b>69.3</b>	<b>68.4</b>	<b>66.2</b>
	COM Nov 2005	59.4	65.9	69.8	72.1	n.a.	n.a.
	<i>SP Jun 2005</i>	<i>61.9</i>	<i>66.5</i>	<i>67.5</i>	<i>67.8</i>	<i>66.8</i>	<i>64.5</i>

Notes:

<sup>1</sup> Commission services calculations on the basis of the information in the programme.

<sup>2</sup> Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.

<sup>3</sup> There are no one-off and other temporary measures in the programme.

<sup>4</sup> One-off and other temporary measures taken from the Commission services' autumn 2005 forecast: 2.2% of GDP in 2004, 0.4% of GDP in 2005 and 0.4% of GDP in 2006 and 0.1% of GDP in 2007; all deficit-reducing.

<sup>5</sup> One-off operations taken from the June 2005 programme: 2.3% of GDP in 2004 and 0.2% of GDP in 2005; all deficit-reducing.

<sup>6</sup> Based on estimated potential growth of 1.3%, 1.1%, 1.2% and 1.4% respectively in the period 2004-2007.

\*Private consumption deflator.

Source:

*Stability programme (SP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations.*