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 Poland, 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 Poland 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 European 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 Poland 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) Poland submitted its convergence programme on 19 January 2006, more than one month and a half after the date specified in the code of conduct. The delay was caused by a change of government in November 2005 following parliamentary elections and a change of the minister of finance in early January 2006. The programme covers the period 2005 to 2008. The document was adopted by the government on 18 January 2006. It incorporates the government 2006 budget, as amended in December 2005 by the new government. 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) On 5 July 2004 the Council decided that Poland 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 2007. In its opinion of 17 February 2005 on the previous update of the convergence programme, covering the period 2004-2007, the Council invited Poland to "(i) strengthen the fiscal adjustment beyond 2005 and lower the deficit target for 2007; (ii) to ensure a full implementation of the structural measures contained in the *Hausner plan* and make further efforts to introduce alternative measures if implementation risks were to materialize".

(3) Polish real GDP growth averaged 4.5% per year between 1994 and 2004 more than 2 percentage points above the EU25 average of 2.4%. After a period of strong economic expansion, real GDP growth fell to 1.0% in 2001, reflecting both domestic and external cyclical factors. It has since rebounded reaching 5.3% in 2004. Per capita income in purchasing power standards reached 46.5% of the EU25 average in 2004. HICP inflation has remained high, at 7.0% on average, over the last ten years, but it dropped significantly in 2005, to about 2%. The labour market situation remains Poland's major problem. As a consequence of economic restructuring, the unemployment rate increased from 13.2% in 1994 to 18.8% in 2004, while total employment decreased by more than 7 percentage points over the same period. Structural problems in the labour market, in particular low geographical mobility of workers and skills mismatches, remain an important impediment to economic growth. For the last ten years, the general government balance has been negative in Poland. It fluctuated between -1.4% and -4.8%[4] of GDP until 2003, when it started to improve, reaching -3.8% of GDP in 2004.

(4) Following an increase in real GDP of 3.3% in 2005, the programme's macroeconomic scenario expects economic growth to gradually strengthen to 4.3% in 2006 up to 5.0% in 2008, which is broadly in line with the Commission services' autumn 2005 forecasts for the years 2005-2007. For the year 2008, the programme's growth projection is above the Commission services' estimate of potential growth. The growth

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[3] The programme provides all compulsory and most optional data prescribed by the new code of conduct. The data on employment in hours worked and labour productivity measured as GDP per hours worked have not been provided. There are no data for general government expenditure by function for 2008. Differences between cash and accruals, net accumulation of financial assets are also missing. Total revenues and expenditures in Table 7 (long-term sustainability) are missing.

[4] EDP definition, all pension funds classified within the general government sector, revised data.

assumptions underlying the programme can thus be considered as plausible, tilted to favourable in the outer year.

(5) Poland pursued a successful policy of disinflation in the recent years with only two short periods of temporary inflation hikes (in 2000 and 2004). The harmonised index of consumer prices (HICP) decreased from 15% in 1997 to ca. 2% in 2005. The exchange rate has fluctuated widely over the past years, along a broad appreciation trend apparent since March 2004, interrupted temporarily in spring 2005. The appreciation resumed in May 2005 and, despite increased volatility, lasted for the rest of the year. The progressive decrease of the spread vis-à-vis the euro area on long-term government bond yields observed since August 2004 was interrupted by uncertainty surrounding the September 2005 elections and the new government's economic agenda. Polish monetary policy continues to be based on direct inflation targeting combined with a free float of the zloty. Since 2004, the inflation target has been defined as a continuous year-on-year CPI inflation of 2.5%. Poland intends to pursue the current monetary policy system until a possible ERM II entry, the date of which has not been announced yet.

(6) As regards budgetary implementation in 2005, the general government deficit is estimated at 2.9% of GDP in the January 2006 update of the convergence programme (against 3.6% of GDP in the Commission services' autumn 2005 forecast and a deficit target of 3.9% of GDP set in the previous update of the convergence programme). However, comparison with previous convergence programmes is not straightforward because of significant data revisions due to methodological changes. The better-than-expected outcome was mainly determined by the budgetary performance of the central government, in particular the state budget, which recorded (on a cash basis) higher-than-planned direct tax revenues and an under-execution of expenditures, reducing the deficit by about 0.7 percentage points compared to the budget plan for 2005.

(7) The current update of the convergence programme aims at a gradual reduction of the general government deficit to meet the convergence criteria by the end of the legislature, hence implicitly by the end of 2009. The deficit target for 2009 is not quantified. The deficit target for 2007 is unchanged at 2.2% of GDP, with the open pension funds included in the general government sector. Excluding the open pension funds from the government sector, the deficit target was revised upwards, compared to the previous update, from 3.9% of GDP to 4.1% of GDP because the estimated cost of the pension reform increased from 1.7% to 1.9% of GDP. The primary balance (open pension funds in the general government sector) is expected to improve from -0.3% of GDP in 2005 to 0.6% in 2008. This slow adjustment is driven by favourable revenue developments in 2006 and some expenditure cuts in 2007 and 2008. Compared with the previous update, the current update sets a more ambitious deficit target in 2006, but afterwards the adjustment effort is lower and expenditure reforms are postponed until 2007 and 2008.

(8) Based on Commission services' calculations on the basis of the programme according to the commonly agreed methodology, the structural balance is planned to improve on average by merely 0.25% of GDP per year, evenly spread over the programme period. The update identifies a medium-term objective (MTO) for the budgetary position as meant in the Stability and Growth Pact of around -1% of GDP, which it expects to achieve after 2010, well beyond the programme horizon.

(9) As the programme's MTO is more demanding than the minimum benchmark (estimated at a deficit of around -1½% of GDP), its achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. The programme's MTO reflects the debt ratio and average potential output growth in the long term.

(10) The balance of risks to the budgetary projections is negative. On the one hand the record of overachievement of the budgetary targets set in the previous programmes makes the budgetary projections cautious. On the other hand, assumptions about tax elasticities are rather optimistic, in particular in 2006. Furthermore, the growth assumptions in the outer year of the programme period (i.e. 2008) seem favourable. In the current political climate, miners have been granted special pension rights, inducing other social groups to claim a special treatment, undermining the pension reform. There is also a political source of risk attached to the budgetary projections. Already in the past it was difficult to implement a large part of the so called *Hausner plan* of public finance restructuring because the government lacked support of the parliament. The current political situation (a minority government) is not favourable to introducing measures aiming at the reduction of the general government deficit and achieving long-term public finance sustainability. The nominal anchor of PLN 30bn for the state budget, introduced in the convergence programme, does not appear sufficient to eliminate the causes of high deficits in Poland, i.e. too fast growth of public expenditure.

(11) The programme does not follow the deficit reduction path specified by the Council in its recommendation under Article 104(7). Even at face value, the fiscal stance in the update seems inconsistent with a correction of the excessive deficit by the deadline set by the Council. The conclusion is reinforced taking into account the balance of risks. The deficit targets for 2005 and 2006 are lower than in the previous update and meet the nominal deficit targets set in the Council recommendation of 5 July 2004, thanks to better than planned execution of the 2005 budget with carry-over effects to 2006. A comparison of targets is, however, complicated by changes in national accounts methodology and data revisions. For the critical year 2007, the programme foresees a deficit reduction to 2.2% of GDP. However, when excluding the second-pillar funded pension schemes from the general government sector in line with the Eurostat decision of 2 March 2004, the planned deficit in 2007 is at 4.1% of GDP. Substantial additional adjustment effort would be needed to correct the excessive deficit by the set deadline.

(12) Between 2005 and 2008, government debt is expected to increase by 3¼ percentage point of GDP and reach 45½% of GDP in 2008, well below the 60% of GDP reference value but, if the open pension funds are excluded from the general government sector, the debt ratio will reach 52.6%. A significant debt increasing stock-flow adjustment is expected to offset the effect of a primary surplus and a favourable snowball effect (i.e. the negative contribution of the implicit interest is more than offset by sustained high nominal GDP growth).

(13) With regard to the sustainability of public finances, Poland appears to be at low risk on grounds of the projected budgetary costs of ageing populations. The level of debt is currently under the 60% reference value and should remain so under the assumption that savings related to the full implementation of the 1999 pension reform will materialise. However, measures recently adopted by the government to exclude particular employment groups from the reformed pension scheme could weaken the

reform's long-term outcome, particularly if further exemptions from the pension schemes were granted. The realization of contingent liabilities as well as the currently high structural deficit may increase the debt/GDP ratio faster than planned over the medium term. Implementing rigorously the planned consolidation of public finances over the medium-term would reduce risks to long-term sustainability.

(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.However, the planned adjustment is not sufficient to correct promptly the excessive deficit.

(15) The National Reform Programme of Poland, submitted on 5 January 2006 in the context of the renewed Lisbon strategy for growth and jobs, identifies the following challenges with significant implications for public finances: budgetary consolidation in view of high deficits, upgrading the underdeveloped transport and environment protection infrastructure, reinforcing public sector R&D and innovation, promoting a more robust approach to raising employment rates through reducing charges imposed on labour for the low paid. The budgetary implications of the actions outlined in the National Reform Programme are not presented in the budgetary projections of the convergence programme. Among the public finance measures included in the National Reform Programme, convergence programme mentions the deficit anchor and the multi-annual budgetary planning.

In view of the above assessment, the Commission notes that the convergence programme does not envisage the correction of the excessive deficit in 2007, as required by the Council recommendation of 5 July 2004. Accordingly, the Commission intends to recommend further steps under the excessive deficit procedure as required by the Stability and Growth Pact. In the meantime, Poland should:

– strengthen the adjustment in 2006 in particular, by allocating any higher-than-budgeted revenues or lower-than-budgeted expenditure to deficit reduction;

– improve the long-term sustainability of the reformed pension system;

– enhance the institutional framework of public finances by introducing a medium-term expenditure rule.

Recommendation for a

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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 Poland, 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 Poland, which covers the period 2005 to 2008.

(2) Polish real GDP growth averaged 4.5% per year between 1994 and 2004 more than 2 percentage points above the EU25 average of 2.4%. After a period of strong economic expansion, real GDP growth slowed to 1.0% in 2001, reflecting both domestic and external cyclical factors. It has since rebounded reaching 5.3% in 2004. Per capita income in purchasing power standards reached 46.5% of the EU25 average in 2004. HICP inflation has remained high, at 7.0% on average, over the last ten years, but dropped significantly in 2005, to around 2%. The labour market situation remains Poland's major problem, with unemployment rate of 18.8% in 2004 and the lowest rate of employment in the EU (51.7% in 2004). For the last ten years, the general government balance has always been negative in Poland. It fluctuated between -1.4% and -4.8%[6] of GDP until 2003, since when it started to improve, reaching -3.8% of GDP in 2004.

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

6 EDP definition, all pension funds classified within the general government sector, revised data.

(3) On 5 July 2004 the Council decided that Poland 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 2007. In its opinion of 17 February 2005 on the previous update of the convergence programme, covering the period 2004-2007, the Council invited Poland to "(i) strengthen the fiscal adjustment beyond 2005 and lower the deficit target for 2007; (ii) to ensure a full implementation of the structural measures contained in the *Hausner plan* and make further efforts to introduce alternative measures if implementation risks were to materialize".

(4) As regards budgetary implementation in 2005, the general government deficit for 2005 is estimated at 3.6% of GDP in the Commission services' autumn 2005 forecast, against a deficit target of 3.9% of GDP set in the previous update of the convergence programme. The comparison with previous convergence programmes is complicated by significant data revisions linked to methodological changes. The better-than-expected outcome was mainly determined by the budgetary performance of the central government, in particular the state budget, which recorded (on a cash basis) higher-than-planned direct tax revenues and an under-execution of expenditures, reducing the deficit by about 0.7 percentage points compared to the budget plan for 2005.

(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]. Poland submitted its convergence programme update on 19 January 2006, 7 weeks beyond the 1 December deadline set in the code of conduct. The delay was caused by the formation of a new government in November 2005 following parliamentary elections and the replacement of the minister of finance in early January 2006.

(6) The programme's macroeconomic scenario expects annual real GDP growth to increase from 3.3% in 2005 to 4.3% in 2006 and to reach 5.0% in 2008. The growth assumptions underlying the programme can be considered as plausible, tilted to favourable in the outer year. The programme's projections for inflation also appear realistic, except for 2006 when they seem to be on the low side.

(7) The current update of the convergence programme aims at a gradual reduction of the general government deficit to meet the convergence criteria by the end of the legislature, hence implicitly by the end of 2009. The target for 2009 is not quantified. The deficit target for 2007 is unchanged at 2.2% of GDP, with the second-pillar funded pension schemes included in the general government sector. If the pension schemes are excluded from the government sector, the deficit target increases compared to the previous update, from 3.9% of GDP to 4.1% of GDP because the estimated cost of the pension reform now reaches 1.9% of GDP. The primary balance (second-pillar funded pension schemes in the general government sector) is expected to improve from -0.3% of GDP in 2005 to 0.6% in 2008. This slow adjustment is driven primarily by favourable revenue developments in 2006 and some expenditure cuts in 2007 and 2008. Compared with the previous update, the current update sets more ambitious deficit targets in 2006, thanks to carry-over effect from favourable

[7] The programme provides all compulsory and most optional data prescribed by the new code of conduct. The data on employment in hours worked and labour productivity measured as GDP per hours worked have not been provided. There are no data for general government expenditure by function for 2008. Differences between cash and accruals, net accumulation of financial assets are also missing. Total revenues and expenditures in Table 7 (long-term sustainability) are missing.

revenue developments in 2005, but afterwards the adjustment effort is lower and expenditure reforms are postponed until 2007 and 2008.

(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 provided in the programme according to the commonly agreed methodology is planned to improve on average by 0.25% of GDP per year. The programme sets the medium-term objective (MTO) for the budgetary position at a structural deficit of -1.0% 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 -1½% of GDP), its achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. The programme's MTO reflects the debt ratio and average potential output growth in the long term.

(9) The budgetary outcome could be worse than projected in the programme. Although the record of overachievement of the budgetary targets set in the previous programmes may make the budgetary projections look cautious, several factors weigh on the planned adjustment. Assumptions about the tax elasticity are rather optimistic, in particular in 2006. Furthermore, the growth assumptions in the outer year of the programme period (2008) seem favourable. In the current political climate, miners have been granted special pension rights, inducing other social groups to also make demands for special schemes, undermining the pension reform implemented in 1999. A broader political risk weighs on the budgetary projections in view of the situation that emerged from the autumn 2005 elections. The four-year nominal anchor of PLN 30bn for the state budget, introduced in the convergence programme, does not appear sufficient to eliminate the causes of high deficits in Poland, i.e. too fast growth of public expenditure. Therefore, some alternative or additional fiscal rule aiming at controlling increase in government expenditure would be beneficial.

(10) The programme does not follow the deficit reduction path specified by the Council in its recommendation under Article 104(7).Even taken at face value, the fiscal stance in the update seems inconsistent with a correction of the excessive deficit by the deadline set by the Council. The conclusion is reinforced taking into account the balance of risks. The deficit targets for 2005 and 2006 are lower than in the previous update and meet the nominal targets set in the Council recommendation of 5 July 2004, thanks to better than planned execution of the 2005 budget with carry-over effects to 2006. A comparison of targets is, however, complicated by changes in national accounts methodology and data revisions. For the critical year 2007, the programme foresees a deficit reduction to 2.2% of GDP. However, when excluding the second-pillar funded pension schemes from the general government sector in line with Eurostat decision of 2 March 2004, the planned deficit in 2007 is at 4.1% of GDP. Substantial additional adjustment effort would be needed to correct the excessive deficit by the set deadline.

(11) Between 2005 and 2008, government debt is expected to increase by 3¼ percentage point of GDP and reach 45½% of GDP in 2008, well below the 60% of GDP reference value. Significant debt-increasing stock-flow adjustments are expected to offset the effect of primary surpluses and a favourable snowball effect (i.e. the negative contribution of the implicit interest is outweighed by sustained high nominal GDP growth).

(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.However, the measures proposed are not sufficient to correct promptly the excessive deficit.

(13) The National Reform Programme of Poland, submitted on 5 January 2006 in the context of the renewed Lisbon strategy for growth and jobs, identifies the following challenges with significant implications for public finances: budgetary consolidation in view of high deficits, upgrading the underdeveloped infrastructure and reducing charges imposed on labour to decrease the high unemployment in Poland. However, the budgetary implications of the actions outlined in the National Reform Programme are not presented in the budgetary projections of the convergence programme. Among the public finance measures introduced in the National Reform Programme, convergence programme mentions the deficit anchor and the multi-annual budgetary planning.

(14) With regard to the sustainability of public finances, Poland appears to be at low risk on grounds of the projected budgetary costs of ageing populations. The level of debt is currently under the 60% reference value and should remain so under the assumption that savings related to the full implementation of the 1999 pension reform will materialise. However, measures recently adopted by the government to exclude particular employment groups from the reformed pension scheme could weaken the reform's long-term outcome, particularly if further exemptions from the pension schemes were granted. The realization of contingent liabilities as well as the currently high structural deficit may increase the debt/GDP ratio faster than planned over the medium term. Implementing rigorously the planned consolidation of public finances over the medium-term would reduce risks to long-term sustainability[8].

In view of the above assessment, the Council notes that the convergence programme does not envisage the correction of the excessive deficit in 2007, as required by the Council recommendation of 5 July 2004, and that the Commission intends to recommend further steps under the excessive deficit procedure as required by the Stability and Growth Pact. In the meantime, Poland should:

– strengthen the adjustment in 2006 in particular, by allocating any higher-than-budgeted revenues or lower-than-budgeted expenditure to deficit reduction;

– improve the long-term sustainability of the reformed pension system;

– enhance the institutional framework of public finances by introducing a medium-term expenditure rule.

[8] Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services (http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm).

Comparison of key macroeconomic and budgetary projections[1]

		2004	2005	2006	2007	2008
Real GDP (% change)	**CP Jan 2006**	**5.3**	**3.3**	**4.3**	**4.6**	**5.0**
	COM Nov 2005	5.3	3.4	4.3	4.5	n.a.
	CP Dec 2004	*5.7*	*5.0*	*4.8*	*5.6*	*n.a.*
HICP inflation (%)	**CP Jan 2006**	**3.6**	**2.2**	**1.5**	**2.2**	**2.5**
	COM Nov 2005	3.6	2.2	2.3	2.5	n.a.
	CP Dec 2004	*3.5*	*3*	*2.7*	*2.5*	*n.a.*
Output gap (% of potential GDP)	**CP Jan 2006[2]**	**0.4**	**0.1**	**0.3**	**0.3**	**0.6**
	COM Nov 2005[5]	0.4	0.2	0.4	0.6	n.a.
	CP Dec 2004[2]	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
General government balance (% of GDP)	**CP Jan 2006**	**-3.8**	**-2.9**	**-2.6**	**-2.2**	**-1.9**
	COM Nov 2005	-3.9	-3.6	-3.6	-3.4	n.a.
	CP Dec 2004	*-5.4*	*-3.9*	*-3.2*	*-2.2*	*n.a.*
Primary balance (% of GDP)	**CP Jan 2006**	**-1.2**	**-0.3**	**-0.2**	**0.3**	**0.6**
	COM Nov 2005	-1.2	-1.0	-1.1	-1.0	n.a.
	CP Dec 2004	*-2.6*	*-1.3*	*-0.5*	*0.4*	*n.a.*
Cyclically-adjusted and Structural balance[3] (% of GDP)	**CP Jan 2006**	**-4.1**	**-2.9**	**-2.7**	**-2.3**	**-2.1**
	COM Nov 2005[4]	-4.1	-3.7	-3.7	-3.6	n.a.
	CP Dec 2004	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Government gross debt (% of GDP)	**CP Jan 2006**	**41.9**	**42.5**	**45.0**	**45.3**	**45.4**
	COM Nov 2005	43.6	46.3	47.0	47.3	n.a.
	CP Dec 2004	*45.9*	*47.6*	*48.0*	*47.3*	*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 -5.6% of GDP in 2004, -4.7% in 2005, -4.6% in 2006, -4.1% in 2007 and -3.7% in 2008, while government gross debt would be 45.9% of GDP in 2004, 47.9% in 2005, 51.2% in 2006, 52.1% in 2007 and 52.6% in 2008.
[2] Commission services calculations on the basis of the information in the programme.
[3] Cyclically-adjusted balance and structural balance are the same since one-off and other temporary measures taken from the programme are insignificant (0.04% of GDP in 2005, deficit-reducing).
[4] There are no one-off and other temporary measures in the Commission services' forecast.
[5] Based on estimated potential growth of 3.3%, 3.6%, 4.2% and 4.5% respectively in the period 2004-2007.
Source:
Convergence programme (CP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations.