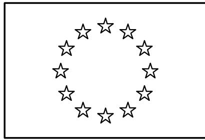

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 7.2.2007
SEC(2007) 139 final

Recommendation for a

COUNCIL OPINION

in accordance with the third paragraph of Article 9 of Council Regulation (EC) No 1466/97 of 7 July 1997

On the updated convergence programme of Hungary, 2006-2010

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. GENERAL 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. The 2005 reform of the Pact acknowledged its 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 Stability and Growth 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 Hungary 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.

2. BACKGROUND FOR THE ASSESSMENT OF THE UPDATED PROGRAMME

The Commission has examined the most recent update of the convergence programme of Hungary, submitted on 1 December 2006, and has adopted a recommendation for a Council opinion on it (see box for the main points covered by the assessment).

In order to set the scene against which the budgetary strategy in the updated convergence programme is assessed, the following paragraphs summarise:

(1) the economic and budgetary performance over the last ten years

(2) the country's position under the corrective arm of the Stability and Growth Pact (excessive deficit procedure)

(3) the most recent assessment of the country's position under the preventive arm of the Stability and Growth Pact (summary of the Council opinion on the previous update of the convergence programme), and

(4) the Commission's assessment of the October 2006 national reform programme.

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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

2.1. Recent economic and budgetary performance

Over the past 10 years, the growth performance of the Hungarian economy has been fairly strong with an increasingly balanced composition since 2003. However, employment and labour market participation rates remain among the lowest in the EU and several imbalances started to build up in recent years related to the expansionary fiscal policy stance. The very high and increasing budget deficit resulted in a significant increase of the public debt; against this background and also in view of the expected long-term rise in age-related expenditures, the sustainability of Hungarian public finances is at high risk. Increasing wage costs, especially since 2001, contributed to the stagnation of employment. Moreover, incentive schemes have not been sufficiently encouraging workers to remain in the labour market and the skills provided by the education and the training systems do not adequately match the requirements of new production structures. The expansionary fiscal policy also appears to have crowded out private investment. At the same time, it contributed to maintaining high external deficits and led to a significant increase of the net foreign debt stock. This was recently accompanied by a build-up of households' un-hedged foreign exchange liabilities increasing their exposure to exchange rate fluctuations.

2.2. The excessive deficit procedure for Hungary

On 5 July 2004, the Council adopted a decision stating that Hungary had an excessive deficit in accordance with Article 104(6). At the same time, the Council addressed a recommendation to Hungary under Article 104(7) specifying that the excessive deficit had to be corrected by 2008 at the latest in line with the adjustment path outlined in the country’s May 2004 convergence programme. However, the Council decided on 18 January 2005 based on Article 104(8) that, despite the adoption of some measures reducing the deficit in 2004 and 2005, Hungary did not comply with the recommendations of July 2004, since both the 2004 and the 2005 targets were expected to be missed by a sizeable margin.

On 8 March 2005, the Council issued another recommendation based on Article 104(7), since Hungary is not yet a member of the euro area and therefore the next two steps of the excessive deficit procedure under Article 104(9) and 104(11) do not apply. The Council recommended the Hungarian authorities to "take effective action by 8 July 2005 regarding additional measures, as far as possible of a structural nature, in order to achieve the deficit target for 2005 as set in the updated convergence programme". Furthermore, the timing and implementation of any tax cuts should be made conditional upon the achievement of the deficit targets of the convergence programme update submitted in December 2004.

On 8 November 2005, the Council decided for the second time based on Article 104(8) that Hungary did not comply with the new recommendations under Article 104(7). Thereby it notably took into account that the deficit targets for 2005 and 2006 would be missed by a sizable margin and that the implementation of the tax cuts starting from 2006 was contrary to the Council recommendation of March 2005.

On 10 October 2006, the Council adopted for the third time a recommendation to Hungary under Article 104(7), extending the deadline for the correction of excessive deficit by one year to 2009 which seems appropriate, as it implies a substantial correction of the structural deficit by more than 6½% of GDP over three years. The Council asked Hungary to reduce the deficit in a credible and sustainable manner and to ensure that the government gross debt ratio is brought onto a firm downward trajectory, in accordance with the multi-annual path for deficit reduction as specified in the adjusted convergence programme update of September

2006. In addition, Hungary was invited to adopt and implement swiftly the planned structural reforms also with a view to ensuring a lasting improvement of public finances. Finally, Hungary was asked to improve budgetary control by enhancing fiscal rules as well as by strengthening the institutional framework. The deadline for Hungary to take effective action in response to these recommendations is 10 April 2007. After the expiry of this deadline, the Commission will make an assessment of action taken by the Hungarian authorities.

2.3. The assessment in the Council opinion on the previous programme

On 10 October 2006, the Council adopted its opinion on the adjusted update of the convergence programme of September 2006, covering the period 2005-2009, that was produced in response to the Council assessment of the December 2005 update. The Council was of the opinion that "the planned deficit reduction is contingent on the rigorous implementation of the envisaged structural reforms, on the enforcement of expenditure controls from the early years of the programme, as well as on a reinforcement of the institutional set-up of public finances in Hungary, all aspects on which the Council urges the Hungarian government to ensure the highest effort". The Council opinion did not contain specific policy invitations since at the same time a recommendation under Article 104(7) was issued by the Council to Hungary (see Section 2.2 above).

2.4. The Commission assessment of the national reform programme

The implementation report of the national reform programme of Hungary, provided in the form of a revised national reform programme in the context of the renewed Lisbon strategy for growth and jobs, was submitted on 13 October 2006. Hungary's revised national reform programme maintains the key challenges identified in the 2005 national reform programme, complements them by a new priority for energy and the environment and a new emphasis on active labour market policies and outlines plans to establish a sustainable budgetary position in the short term, which is conducive to growth and job creation over the medium term.

The Commission’s assessment of this programme (adopted as part of its December 2006 Annual Progress Report[2]) showed that Hungary has made limited progress in the implementation of its 2005 national reform programme. After major budgetary slippages, the government has had to significantly review its fiscal adjustment path and subsequently adopted and implemented fiscal consolidation measures. Some reforms have been implemented in both the employment and micro-economic policy areas. Still, much more remains to be done in those fields as well as in improving macroeconomic stability.

Against the background of strengths and weaknesses identified, Hungary was recommended to take action in the areas of: credible reduction of the government deficit and of gross debt ratios; reform of public administration, health care, pension and education systems; active labour market policies and further incentives to work; equal access to high quality education and responsiveness of education and training systems.

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[2] Communication from the Commission to the Spring European Council, “Implementing the renewed Lisbon strategy for growth and jobs - A year of delivery” - COM(2006) 816, 12.12.2006.

Box: Main points covered by the assessment

As required by Article 5(1) (for stability programmes) and Article 9(1) (for convergence programmes) of Council Regulation (EC) No 1466/97, the assessment covers the following points:

- whether the economic assumptions on which the programme is based are plausible;
- the medium-term budgetary objective (MTO) presented by the Member State and whether the adjustment path towards it is appropriate;
- whether measures being taken and/or proposed to respect that adjustment path are sufficient to achieve the MTO over the cycle;
- when assessing the adjustment path towards the MTO, whether a higher adjustment effort is made in economic good times, whereas the effort may be more limited in economic bad times, and, for euro-area and ERM II Member States, whether the Member State pursues an annual improvement of the cyclically-adjusted balance, net of one-off and other temporary measures, of 0.5% of GDP as a benchmark to meet its MTO;
- when defining the adjustment path to the MTO (for Member States that have not yet reached it) or allowing a temporary deviation from the MTO (for Member States that have), the implementation of major structural reforms which have direct long-term cost-saving effects (including by raising potential growth) and therefore a verifiable impact on the long-term sustainability of public finances (subject to the condition that an appropriate safety margin with respect to the 3% of GDP reference value is preserved and that the budgetary position is expected to return to the MTO within the programme period), with special attention for pension reforms introducing a multi-pillar system that includes a mandatory, fully-funded pillar;
- whether the economic policies of the Member State are consistent with the broad economic policy guidelines.

The plausibility of the programme's macroeconomic assumptions is assessed by reference to the Commission services' autumn 2006 forecast, using also the commonly agreed methodology for the estimation of potential output and cyclically-adjusted balances. The assessment of consistency with the broad economic policy guidelines is made against the broad economic policy guidelines in the area of public finances as included in the integrated guidelines for the period 2005-2008.

The assessment also examines:

- the evolution of the debt ratio and the outlook for the long-term sustainability of the public finances, which should be given "sufficient attention in the surveillance of budgetary positions" according to the Council report of 20 March 2005 on "Improving the implementation of the Stability and Growth Pact". A Commission Communication of 12 October 2006 sets out the approach to the assessment of long-term sustainability[3];
- the degree of integration with the national reform programme, submitted by Member States in the context of the Lisbon strategy for growth and jobs. In its cover note of 7 June 2005 to the European Council on the broad economic policy guidelines for the period 2005-2008, the ECOFIN Council stated that the national reform programmes should be consistent with the stability and convergence programmes;
- compliance with the code of conduct[4], which inter alia prescribes a common structure and set of data tables for the stability and convergence programmes.

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[3] Communication from the Commission to the Council and the European Parliament, "The long-term sustainability of public finances in the EU" - COM(2006) 574, 12.10.2006 - and European Commission, Directorate-General for Economic and Financial Affairs (2006), "The long-term sustainability of public finances in the European Union", European Economy No 4/2006.

[4] "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.

Recommendation for a

COUNCIL OPINION

in accordance with the third paragraph of Article 9 of Council Regulation (EC) No 1466/97 of 7 July 1997

On the updated convergence programme of Hungary, 2006-2010

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 [27 February 2007] the Council examined the updated convergence programme of Hungary, which covers the period 2006 to 2010.

(2) The programme's macroeconomic scenario expects a slow-down of economic activity for the years 2007 and 2008, as a result of the fiscal consolidation measures, with a recovery to pre-consolidation growth rates by 2009. Assessed against currently available information, this scenario appears to be broadly plausible for the years up to 2008 and might even be slightly cautious, while for the outer years it seems rather favourable. The programme projects inflation to surge in 2007 and rapidly decline thereafter; however, the projected inflation path over the entire programme horizon is somewhat favourable.

(3) For 2006, the general government deficit is estimated at 10.1% of GDP in the Commission services' autumn 2006 forecast, in line with the revised target of the

[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

September 2006 update[6], and against a target of 6.1% of GDP set in the December 2005 update of the convergence programme. The overshoot compared to the original deficit target took place almost entirely on the expenditure side (around 5% of GDP), mainly operational costs of central budgetary institutions, pension and health-care expenditure and local government investment. It also reflects the inclusion of motorway investment inside the general government (1.1% of GDP). The budgetary corrective package of 1½% of GDP adopted in summer 2006 consists of revenue-increasing measures, together with some immediate expenditure cuts in the areas of health-care, gas price subsidies and public administration. These measures (except the withdrawal of the 0.3% of GDP general reserve of the budget) are expected to produce important effects also in 2007 and thereafter.

(4) The main goal of the update is to correct the excessive deficit by 2009 (reducing the deficit from 10.1% of GDP in 2006 to 3.2% of GDP in 2009[7]), in line with the September 2006 update against a background of a broadly similar macroeconomic scenario, with a further reduction in 2010. The improvement in the primary balance is of the same magnitude. The planned adjustment is front-loaded, with nearly half of the reduction in the deficit ratio to take place in 2007. The planned nominal adjustment over the programme period is to be achieved by increasing the revenue-to-GDP ratio by nearly 1 percentage point and by reducing the expenditure-to-GDP ratio by 6.5 percentage points. An initial increase in the tax burden by 1.6 percentage points of GDP in 2007 is progressively replaced by measures on the expenditure side. On top of the expenditure cuts and budgetary freezes adopted since summer 2006, the authorities have started to strengthen expenditure controls and enhance the institutional framework of public finances. Moreover, the programme spells out a broad structural reform agenda aimed to ensure the achievement of the deficit targets, especially in the outer years of the programme.

(5) The structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) calculated according to the commonly agreed methodology is planned to improve from 9¾% of GDP in 2006 to around 3% at the end of the programme period. The medium-term objective (MTO) for the budgetary position presented in the programme is a structural deficit of 0.5% of GDP, which the programme does not aim to achieve within the programme period. This is somewhat more ambitious compared to the previous update of the programme, which put forward an MTO-range of a structural deficit between 0.5% and 1% of GDP. The

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[6] In its opinion on the December 2005 update of the convergence programme, the Council had considered that the planned cut in expenditures of 7.5% of GDP was not backed by concrete measures. Therefore, it had invited Hungary to present by 1 September 2006 at the latest an adjusted convergence programme update identifying concrete and structural measures fully consistent with its medium-term adjustment path. In accordance with this request, Hungary submitted its adjusted programme on 1 September 2006 to the Council and the Commission.

[7] The deficit target of 3.2% of GDP in 2009 would still exceed the 3% of GDP threshold specified in the Treaty. It is assumed in the programme that the Council and the Commission take into account 20% of the yearly burden on the budget arising from the pension reform (which is expected to amount to 0.3% of GDP in that year) when taking a decision on abrogating the excessive deficit procedure for Hungary (in line with Council Regulation (EC) No 1467/97 as amended, Article 2(7), which stipulates that if the general government deficit "*…has declined substantially and continuously and has reached a level that comes close to the reference value*", the Council and the Commission should consider the net cost of a pension reform that includes a fully-funded pillar on a linear degressive basis for a transitory period of five years, and taking into account the implementing provisions in the code of conduct).

MTO adequately reflects the debt ratio and average potential output growth in the long term. As the MTO is more demanding than the minimum benchmark (estimated at a structural deficit of around 1½% of GDP), achieving it should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit.

(6) The budgetary outcomes could be worse than targeted in the programme, especially from 2008. The risks to the deficit path stemming from the macroeconomic outlook are broadly balanced until 2008, but lower-than-projected GDP growth in the outer years could lead to a higher deficit. Although the short-term expenditure cuts and temporary budgetary freezes were incorporated into the 2007 budget as planned, there is still some uncertainty about the effective enforcement of the expenditure freezes (also because of the poor track-record of similar controls in 2004-2006). The effectiveness of the new fiscal rules and the initial steps taken towards a multi-annual budgetary framework in reversing the pattern of regular expenditure overruns will have to be tested. The Government has taken decisions on a number of steps to reform the public administration, health, pension, price subsidies and education systems. Based on these measures the budgetary outcomes could be closer to the deficit targets for 2007 and 2008 than expected in the Commission services' autumn 2006 forecast. However, the remaining structural reform steps, necessary to replace the expenditure-curbing measures that expire at the end of 2008, still need to be fully specified and implemented. In addition, in the outer years of the programme, there is a risk of a budgetary loosening, due to the electoral cycle, as evidenced by past experience. Finally, should the restructuring plans of the public transport companies fail to yield the expected results, the accummulating losses of these companies might temporarily increase the deficit.

(7) In view of this risk assessment, the budgetary stance in the programme seems broadly consistent with a correction of the excessive deficit by 2009 as recommended by the Council provided that the budgetary strategy is fully implemented. This concerns in particular the full implementation of the consolidation measures announced in the 2007 budget and in the new programme as well as the further specification and timely adoption of the announced additional structural reform measures. In 2010, after the planned correction of the excessive deficit, the pace of the adjustment towards the MTO implied by the programme should be strengthened. This would also be a first step towards providing a sufficient safety margin against breaching the 3% of GDP deficit threshold with normal macroeconomic fluctuations, which is not in place.

(8) The government gross debt is estimated to have reached 67½% of GDP in 2006, which is above the 60% of GDP Treaty reference value. The programme projects the debt ratio to increase to 71¼% in 2008. After 2008, it is expected to decrease again and return to 67½% in 2010. The evolution of the debt ratio is likely to be less favourable than projected in the programme given the risks to the budgetary targets mentioned above. In view of this risk assessment, the debt ratio would not be sufficiently diminishing towards the reference value until the end of the programme period.

(9) The long-term budgetary impact of ageing in Hungary is well above the EU average, notably as a result of the high increase in pension expenditure as a share of GDP over the long term. While first important steps have been taken, full implementation of further reform measures aimed at containing the significant increase in age-related expenditures as planned in the programme would contribute to reducing risks to the sustainability of public finances. Moreover, and importantly, the weak initial

budgetary position, having deteriorated substantially compared with 2005, constitutes a risk to sustainable public finances even before the long-term budgetary impact of an ageing population is considered. In addition, the current level of gross debt is above the Treaty reference value. Further budgetary consolidation as planned would contribute to reducing risks to the sustainability of public finances. Overall, Hungary appears to be at high risk with regard to the sustainability of public finances.

(10) The convergence programme contains a qualitative assessment of the overall impact of the Hungarian October 2006 revised national reform programme within the overall medium-term strategy. In addition, it provides some information on the direct budgetary costs or savings of the main reforms envisaged in the national reform programme, but its budgetary projections do not explicitly take into account all the public finance implications of the actions outlined in the national reform programme. The measures in the area of public finances envisaged in the convergence programme seem consistent with those foreseen in the national reform programme. In particular, the structural reform plans and recently adopted measures outlined in the convergence programme entirely correspond to the reform agenda presented in the national reform programme, notably the reform steps adopted in the fields of public administration, health-care, pension and education and various subsidy systems.

(11) The budgetary strategy in the programme is broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008.

(12) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme provides all required and most of the optional data[8].

The overall conclusion is that the programme plans to reduce the high deficits of the past years through a frontloaded adjustment effort and is broadly consistent with correcting the excessive deficit by 2009, the deadline set by the Council. A number of revenue-increasing and expenditure-containing measures have been taken since the summer of 2006, as well as initial reform steps in the fields of public administration, health care, pension and education reform. However, there are risks to the achievement of the deficit and debt targets, especially from 2008.

In view of the above assessment, and also in the light of the recommendation under Article 104(7) of 10 October 2006, Hungary is invited to:

(i) rigorously implement the 2007 budget and take adequate action to ensure the correction of the excessive deficit by 2009, if necessary through additional measures; and ensure that the gross debt-to-GDP ratio is brought onto a firm downward trajectory, preferably before 2009;

(ii) improve budgetary control by enhancing fiscal rules and by strengthening the institutional framework of public finances, building on the first steps undertaken in the budget for 2007;

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[8] In particular, data are missing on government expenditure by function as well as on hours worked, the government's financial assets and financial debt; some data on the long-term sustainability of public finances are also not provided.

(iii) curb expenditure in a permanent manner through the adoption and swift implementation of the announced streamlining of the public administration and healthcare systems and the envisaged reform of the education system;

(iv) in view of the level of debt and the increase in age-related expenditure, improve the long-term sustainability of public finances by making adequate progress towards the MTO and taking additional pension reform measures as announced.

Comparison of key macroeconomic and budgetary projections

		2005	2006	2007	2008	2009	2010
Real GDP (% change)	**CP Dec 2006**	**4.2**	**4.0**	**2.2**	**2.6**	**4.2**	**4.3**
	COM Nov 2006	4.2	4.0	2.4	2.7	n.a.	n.a.
	CP Sep 2006	*4.1*	*4.1*	*2.2*	*2.6*	*4.1*	*n.a.*
	CP Dec 2005	*4.2*	*4.3*	*4.1*	*4.1*	*n.a.*	*n.a.*
HICP inflation (%)	**CP Dec 2006**	**3.6**	**3.9**	**6.2**	**3.3**	**3.0**	**2.8**
	COM Nov 2006	3.5	3.9	6.8	3.9	n.a.	n.a.
	CP Sep 2006	*3.6*	*3.5*	*6.2*	*3.3*	*3.0*	*n.a.*
	CP Dec 2005	*3.5*	*2.1*	*3.0*	*2.4*	*n.a.*	*n.a.*
Output gap (% of potential GDP)	**CP Dec 2006[1]**	**0.5**	**0.9**	**-0.4**	**-1.2**	**-0.5**	**0.4**
	COM Nov 2006[5]	0.6	1.0	0.1	-0.5	n.a.	n.a.
	CP Sep 2006[1]	*0.3*	*0.8*	*-0.3*	*-0.9*	*0.0*	*n.a.*
	CP Dec 2005[1]	*-1.0*	*-0.5*	*-0.1*	*0.4*	*n.a.*	*n.a.*
General government balance (% of GDP)	**CP Dec 2006**	**-7.8**	**-10.1**	**-6.8**	**-4.3**	**-3.2**	**-2.7**
	COM Nov 2006	-7.8	-10.1	-7.4	-5.6	n.a.	n.a.
	CP Sep 2006	*-7.5*	*-10.1*	*-6.8*	*-4.3*	*-3.2*	*n.a.*
	CP Dec 2005[6]	*-7.4*	*-6.1*	*-4.7*	*-3.4*	*n.a.*	*n.a.*
Primary balance (% of GDP)	**CP Dec 2006**	**-3.7**	**-6.2**	**-2.4**	**0.0**	**0.9**	**1.1**
	COM Nov 2006	-3.7	-6.1	-2.9	-1.4	n.a.	n.a.
	CP Sep 2006	*-3.4*	*-6.3*	*-2.4*	*-0.2*	*0.8*	*n.a.*
	CP Dec 2005[6]	*-3.8*	*-2.9*	*-1.7*	*-0.7*	*n.a.*	*n.a.*
Cyclically-adjusted balance (% of GDP)	**CP Dec 2006[1]**	**-8.0**	**-10.5**	**-6.6**	**-3.8**	**-3.0**	**-2.9**
	COM Nov 2006	-8.1	-10.5	-7.4	-5.4	n.a.	n.a.
	CP Sep 2006[1]	*-7.6*	*-10.5*	*-6.7*	*-3.9*	*-3.2*	*n.a.*
	CP Dec 2005	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Structural balance[2] (% of GDP)	**CP Dec 2006[3]**	**-8.0**	**-9.8**	**-5.6**	**-3.7**	**-3.0**	**-2.9**
	COM Nov 2006[4]	-8.5	-10.3	-6.5	-5.1	n.a.	n.a.
	CP Sep 2006	*-7.6*	*-9.7*	*-5.8*	*-3.6*	*-3.2*	*n.a.*
	CP Dec 2005	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Government gross debt (% of GDP)	**CP Dec 2006**	**61.7**	**67.5**	**70.1**	**71.3**	**69.3**	**67.5**
	COM Nov 2006	61.7	67.6	70.9	72.7	n.a.	n.a.
	CP Sep 2006	*62.3*	*68.5*	*71.3*	*72.3*	*70.4*	*n.a.*
	CP Dec 2005[6]	*61.5*	*63.0*	*63.2*	*62.3*	*n.a.*	*n.a.*

Notes:
[1] Commission services calculations on the basis of the information in the programme.
[2] Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.
[3] One-off and other temporary measures taken from the programme (0.7% of GDP in 2006 and 1.0% of GDP in 2007 and 0.1% of GDP in 2008; all deficit increasing).
[4] One-off and other temporary measures taken from the Commission services' autumn 2006 forecast (0.4% of GDP in 2005, deficit reducing; 0.3% of GDP in 2006; 0.9% of GDP in 2007 and 0.3% in 2008; all deficit increasing).
[5] Based on estimated potential growth of 3.7%, 3.6%, 3.4% and 3.2% respectively in the period 2005-2008.
[6] For the sake of comparability, the budgetary figures of the December 2005 Convergence Programme were adjusted to include pension reform-related costs.

Source:
Convergence programme (CP); Commission services' autumn 2006 economic forecasts (COM); Commission services' calculations