COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 30.1.2008
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Recommendation for a

COUNCIL OPINION

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

On the updated stability programme of France, 2007-2012

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. GENERAL BACKGROUND

The Stability and Growth Pact 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 each Member State has to submit, to the Council and the Commission, a stability or convergence programme 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 France was submitted in January 1999. In accordance with the Regulation, the Council delivered an opinion on it on 15 March 1999 on the basis of a recommendation from the Commission and after having consulted the Economic and Financial Committee. As regards updated stability and convergence programmes, the regulation foresees that these are assessed by the Commission and examined by the Committee and if necessary and following the same procedure as set out above, they may be examined by the Council.

2. BACKGROUND FOR THE ASSESSMENT OF THE UPDATED PROGRAMME

The Commission has examined the most recent update of the stability programme of France, submitted on 30 November 2007, and is recommending 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 stability programme is assessed, the following paragraphs summarise:

(1) 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 stability programme)

(2) the orientations for budgetary policies adopted by the April 2007 Eurogroup

(3) the March 2007 update of the country-specific broad economic policy guidelines in the area of budgetary policies

(4) the Commission's assessment of the October 2007 implementation report of the 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). The documents referred to in this text are available at: http://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm.

2.1. The assessment in the Council opinion on the previous update

In its opinion of 27 February 2007, the Council summarised its assessment of the previous update of the stability programme, covering the period 2006-2010, as follows: "The Council welcomes that, after the correction of the excessive deficit and in a context of strong revenue growth, the programme gives priority to debt reduction and envisages progress towards the MTO through an expenditure-based adjustment. But it notes that the adjustment is somewhat back-loaded and that there are risks to the achievement of the budgetary targets, especially in the outer years". In view of this assessment, the Council invited France to "exploit the robust growth prospects and the positive base effect from a stronger-than previously expected 2006 outturn to frontload the adjustment towards the MTO and pursue an ambitious structural adjustment in the coming years with a view to achieving the MTO by 2010 as planned, thereby reducing the level of the debt and improving the long-term sustainability of public finances. In particular, the 2007 budget should be fully and effectively implemented and any opportunity should be seized to step up the structural adjustment and (ii) strengthen the monitoring and enforcement of expenditure rules for all sub-sectors of the general government so as to ensure the respect of the ambitious multi-annual expenditure ceilings".

2.2. Orientations for budgetary policies adopted by the Eurogroup in April 2007

On 20 April 2007, with a view to improving the coordination of fiscal policies in the euro area, Eurogroup ministers discussed national budgetary developments in 2007 and the preliminary policy outlook for 2008 and their implications for the euro area.

Reaffirming their adherence to the sound fiscal policy principles of the revised Stability and Growth Pact and to national fiscal rules, Ministers committed to (i) build on the better-than-expected budgetary outcomes in 2006 to pursue more ambitious budgetary targets than those set in the end-2006 updates of the stability programmes; (ii) implement their 2007 budgets as planned, avoiding expenditure overruns, and using unexpected extra revenues to reduce government deficit and debt; and (iii) carefully design fiscal policy plans for 2008 so as to accelerate the adjustment towards the MTO for Member States which have not reached it and for those which have reached it to avoid feeding macroeconomic imbalances overall[2].

2.3. March 2007 update of the country-specific broad economic policy guidelines in the area of budgetary policies

On 27 March 2007, the Council adopted a recommendation on the 2007 update of the broad guidelines for the economic policies of the Member States and the Community and on the implementation of Member States' employment policies[3]. In the area of budgetary policies, France was recommended to ensure the sustainability of its public finances taking into account the ageing of the population through continued budgetary consolidation and debt reduction. The meeting on pension systems scheduled for 2008 will have to hang on to the gains made following the introduction of the 2003 reform. In addition, all euro area Member States were recommended to "make use of the favourable cyclical conditions to aim at or pursue ambitious budgetary consolidation towards their medium-term objectives in line with the Stability and Growth Pact, hence striving to achieve an annual structural adjustment of at

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2 The entire statement can be found at: www.gouvernement.lu/salle_presse/actualite/2007/04/20pm_krecke_berlin/MTBR_EG_conclusions-finalCLEAN.rtf

3 OJ L 92, 3.4.2007, p. 23.

least 0.5 % of GDP as a benchmark" and "to improve the quality of public finance by reviewing public expenditures and taxation, with the intention to enhance productivity and innovation, thereby contributing to economic growth and fiscal sustainability".

2.4. The Commission assessment of the October 2007 implementation report of the national reform programme

On 11 December 2007, the Commission adopted its Strategic Report on the renewed Lisbon strategy for growth and jobs, which includes an assessment of the October 2007 implementation report of France's national reform programme[4] and is summarised as follows.

France's national reform programme identified as key challenges: creating the conditions for strong economic growth, reducing unemployment and raising employment levels, and building a knowledge-based economy.

The Commission's assessment was that France has made steady progress in implementing its national reform programme over the 2005-2007 period.

Against the background of strengths and weaknesses identified, the Commission recommended that France is recommended to take action in the areas of: sustainability of public finances, increased competition in the gas, electricity and rail freight sectors, lifelong learning and labour market reforms regarding flexicurity.

Against the background of progress made, the Commission recommended that France should be encouraged to focus on the following challenges: further strengthening competition in regulated trades and professions, further enhancing better regulation policies by including impact assessments; and continuing to increase labour supply and making work pay.

4 Communication from the Commission to the European Council, "Strategic report on the renewed Lisbon strategy for growth and jobs: launching the new cycle (2008-2010)" - COM(2007) 803, 11.12.2007.

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 2007 forecast, using also the commonly agreed methodology for the estimation of potential output and cyclically-adjusted balances.

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[5];
- the degree of consistency with the national reform programme, submitted by Member States in the context of the Lisbon strategy for growth and jobs, and its October 2007 implementation report. 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[6], which inter alia prescribes a common structure and set of data tables for the stability and convergence programmes.

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5 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.

6 "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.

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On the updated stability programme of France, 2007-2012

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[7], 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 [12 February 2008], the Council examined the updated stability programme of France which covers the period 2007 to 2012, one year more than the required reference period to coincide with the government programme.

(2) Between 2001 and 2005, annual real GDP grew by just above 1½% on average. This was in line with average growth in the euro area, while inflation was marginally below the euro average. Since 2006, GDP growth in France has fallen below the euro area average, with increasing evidence of structural problems and a related deterioration in competitiveness. Although the unemployment rate has improved since 2005, it remains well above the euro area average, and the employment rate and the hours worked are still low. In this context, the adopted measures and envisaged wide-ranging labour and product market reforms planned by the government over the coming five years would, if fully implemented, increase potential growth and competitiveness, and improve the long-term sustainability of public finances. Government deficits and debt ratios, though decreasing, remain high. While positive steps have been taken recently to curb spending, notably in social security, France has the highest expenditure-to-GDP ratio in the euro area and its deficit is still fairly close to the 3% of GDP threshold. Thus, key challenges for the coming years will be to implement reforms to

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[7] 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://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm.

increase potential growth, improve the competitiveness of the French economy and help sustain the budgetary consolidation process as well as to forcefully restrain expenditure at all levels of government and improve its efficiency.

(3) The programme contains two different scenarios for the macroeconomic and budgetary projections: a "low" growth scenario and a "high" growth scenario. The "low" growth scenario is considered the reference scenario for assessing public finance projections. It envisages that real GDP growth will pick up from 2% in 2007 to 2-2.5% in 2008 and to 2.5% over the rest of the programme period, which is higher than the Commission services' estimate of potential growth of just above 2%. Assessed against currently available information[8], even this scenario appears to be based on favourable growth assumptions, especially for 2009. Less buoyant growth in the medium term than foreseen in the programme is a distinct possibility, not only because the programme builds on optimistic assumptions concerning the international environment, but also because the announced growth-enhancing labour and product market reforms still have to be specified and implemented and will only gradually increase growth potential. So far, the government has notably adopted a university reform and additional incentives to corporate research and has agreed on reforming the special pension regimes. Moreover, reforms under discussion cover a wide range of areas such as further reforming the pension system and the labour market including through a review of the labour contracts, as well as the modernisation of the French economy taking into account the proposals of the "Attali Commission". In the light of the latest developments in oil and food prices, the programme's projections for inflation appear to be on the low side over the entire programme period. This also has implications for plausibility of the competitiveness and net exports assumed in the programme.

(4) For 2007, the general government deficit is estimated at 2.6% of GDP in the Commission services' autumn 2007 forecast, against a target of 2.5% of GDP set in previous update of the stability programme. In the new update the deficit is expected to come out at 2.4% of GDP, also thanks to some one-off revenue. Revenue windfalls, which partly result from a positive base effect following higher-than-expected revenues in 2006, broadly offset the negative impact of the fiscal package adopted in summer aimed at supporting growth (mainly involving tax cuts) and especially the higher-than-budgeted expenditure increase (notably in healthcare). Thus, despite the possible achievement of the budgetary objective set in the previous update, the budgetary implementation in 2007 cannot be considered to be in line with the policy invitation included in the Council opinion of 27 February 2007 on the previous update of the stability programme[9] to "frontload the adjustment towards the MTO … with a view to achieving [it] in 2010 as planned and in particular to fully and effectively implement the 2007 budget and seize any opportunity to step up the structural adjustment". The budgetary implementation also does not appear to be in line with the April 2007 Eurogroup orientations for budgetary policies since unexpected extra revenues were not fully used to reduce government deficit and debt.

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[8] The assessment takes notably into account the Commission services' autumn forecasts and the Commission assessment of the October 2007 implementation report of the national reform programme.

[9] OJ C 70, 27.3.2007, p. 13.

(5) The main goal of the budgetary strategy in the update of the stability programme is to gradually curb public expenditure, in a context in which growth is assumed to strengthen through the adopted and announced structural reforms, in order to achieve the medium-term objective (MTO) of a balanced position in structural terms (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) in 2012 at the latest. According to the reference scenario, the headline deficit would fall marginally in 2008, from 2.4% of GDP in 2007 to 2.3% of GDP, and then more rapidly, by 0.6 percentage point per year, until a balanced position is reached in 2012. At the same time, the primary surplus would improve from 0.2% of GDP in 2007 to 2.5% of GDP in 2012. Against the background of more favourable macroeconomic growth assumptions, the programme significantly revises the adjustment planned in the previous update, which had set 2010 as a target year to achieve the MTO. The budgetary consolidation is back-loaded in spite of a better initial budgetary position, as the structural adjustment is almost negligible in the first programme year and it is spread over a longer period. The deficit reduction is planned to be fully expenditure-based, with the expenditure ratio decreasing by nearly 3 percentage points of GDP especially in the area of compensation of employees and social transfers. The revenue-to-GDP ratio would also decline somewhat in 2008 and 2009 and stabilise thereafter. Government gross debt, estimated at 64.2% of GDP in 2007 in the update, i.e. above the 60% of GDP Treaty reference value, is projected to decline by over 4 percentage points of GDP over the programme period and reach the reference value in 2012.

(6) The budgetary outcomes could be worse than targeted in the programme, taking into account macroeconomic risks as well as uncertainties on budget implementation. The macroeconomic scenario, which relies upon a significant improvement in the international environment, appears favourable over the entire programme period. This is to some extent linked to the fact that it relies on the implementation of structural reforms including those of the special pension regimes and the review of the labour contracts already broadly agreed, as well as other reforms that are yet to be decided. Such reform measures could entail significant implementation risks, e.g. in the case of the labour market or administrative reforms. For the near term there are some concrete measures to support expenditure restraint (e.g. the introduction of a minimum payment charged to patients for certain healthcare expenditures and the partial replacement of retirees in public administration). For the medium term, when the consolidation is expected to be larger, there could indeed be a positive effect from structural reforms, but the precise measures are not yet fully specified and hence their budgetary impact is uncertain. Moreover, while the extension of the state rule to cover transfers to local government could contribute towards containing expenditure, the fact that local government and the social security sector are not adequately covered by expenditure rules still weighs on the assessment of the government's plans. In view of these risks attached to the budgetary targets, the evolution of the debt ratio could also be worse than projected in the programme.

(7) In view of the risk assessment above and the fact that the structural balance would hardly improve in 2008 and thereafter improve by 0.4-0.5 percentage points of GDP per year, the budgetary stance in the programme may not be sufficient to ensure that the MTO is achieved by 2010 as indicated by the Eurogroup or even by 2012 as envisaged in the programme. According to the programme, a sufficient safety margin against breaching the 3% of GDP deficit threshold with normal macroeconomic fluctuations would only be reached in 2010. In view of the risks to the budgetary

targets, it is more likely to be achieved towards the end of the programme period. The pace of the adjustment towards the MTO implied by the programme is inadequate, especially in 2008, when the minimal adjustment is neither in line with the 0.5% of GDP benchmark in the Stability and Growth Pact nor with the orientations of the April 2007 Eurogroup. Taking into account the risks to the deficit projections mentioned above, the debt ratio may not be sufficiently diminishing towards the reference value over the programme period.

(8) France is at medium risk with regard to the sustainability of public finances. The long-term budgetary impact of ageing is slightly lower than the EU average, with pension expenditure showing a somewhat more limited increase, as a result of the pension reforms already enacted. The budgetary position in 2007, as estimated in the programme, albeit improved compared with last year, still constitutes a risk to sustainable public finances even before the long-term budgetary impact of an ageing population is considered. Moreover, the current level of gross debt is above the Treaty reference value. Progress with budgetary consolidation would contribute to reducing risks to the sustainability of public finances.

(9) The stability programme seems to be consistent to some extent with the October 2007 implementation report of the national reform programme. In particular, both programmes present the government's wide ranging reform agenda, including the labour market reform, the reorganisation of the public administration, and the improvement of the competitive framework of companies. The implementation report covers a broader range of issues (for example also environment and energy), while the stability programme contains more information on recent developments, for instance on the work carried out by the Attali Commission and the forthcoming review of the pension system, as well as the latest measures adopted (e.g. research incentives and measures concerning healthcare). Both programmes do not provide systematic information on the direct budgetary costs (or savings) associated with the main reforms envisaged, although they are reported to underpin the budgetary consolidation of the stability programme.

(10) The budgetary strategy in the programme is only partly consistent with the country-specific broad economic policy guidelines and the guidelines for euro area Member States in the area of budgetary policies issued in the context of the Lisbon strategy. In particular, France is unlikely to achieve its medium-term budgetary objective by 2010 and the pace of government debt reduction remains unsatisfactory.

(11) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme has some gaps in the required and optional data[10].

The overall conclusion is that the pace of budgetary consolidation and debt reduction has slowed down in 2007 and is planned to be much less ambitious in the coming years than planned in the previous update of the stability programme, especially as concerns 2008. The envisaged consolidation is back-loaded and the achievement of the MTO through an expenditure-based adjustment is postponed from 2010 to 2012 under the more plausible of the

[10] In particular, assumptions on short- and long-term interest rates are not provided. Moreover, figures for 2006 are not provided in the programme, except for the table on cyclical developments.

two macroeconomic scenarios presented by the French authorities. Moreover, even this adjustment path is subject to important risks. While tax cuts adopted in summer 2007 are already impacting on public finances, the authorities have also adopted measures to curb public expenditure in 2008, notably in social security, broadened the coverage of expenditure rules for the state, and have embarked on structural reforms. Structural reforms will be crucial to increase potential growth, improve competitiveness, and sustain the budgetary consolidation process. However, measures underlying the ambitious planned reduction in the expenditure ratio over the programme period have still to be further specified and their effectiveness will have to be tested. The programme objectives are also subject to risks stemming from the macroeconomic assumptions, which are favourable, in view of optimistic assumptions on the international environment all the more in light of recent developments, and since they rely on still to be fully specified structural reforms. In view of the debt and deficit levels and the projected increase in age-related expenditure, France appears to be at medium risk with regard to the sustainability of public finances.

In view of the above assessment and also in the light of the April 2007 Eurogroup orientations for fiscal policies, France is invited to:

(i) considerably strengthen the pace of budgetary consolidation and debt reduction so as to ensure that a safety margin against breaching the 3% deficit threshold is attained more rapidly than planned and that the MTO is reached by 2010 in order to decisively contribute to the improvement of the long-term sustainability of public finances.

(ii) effectively enforce existing expenditure rules and continue to extend their coverage to encompass all sub-sectors of the general government in order to guarantee the respect of the ambitious multi-annual expenditure reduction plans.

(iii) make progress with structural reforms, so as to increase potential growth and curb public expenditure.

Comparison of key macroeconomic and budgetary projections

		2006[4]	2007	2008	2009	2010	2011	2012
Real GDP (% change)	**SP Nov 2007**	**2.0**	**2 - 2.5**	**2 - 2.5**	**2.5**	**2.5**	**2.5**	**2.5**
	COM Nov 2007	2.0	1.9	2.0	1.8	n.a.	n.a.	n.a.
	SP Dec 2006	*2.0-2.5*	*2.0-2.5*	*2¼*	*2¼*	*2¼*	*n.a.*	*n.a.*
HICP inflation (%)	**SP Nov 2007**	**1.9**	**1.4**	**1.7**	**1.6**	**1.6**	**1.6**	**1.6**
	COM Nov 2007	1.9	1.5	1.7	1.6	n.a.	n.a.	n.a.
	SP Dec 2006	*2.0*	*1.9*	*1¾*	*1¾*	*1¾*	*n.a.*	*n.a.*
Output gap[1] (% of potential GDP)	**SP Nov 2007**	**-0.5**	**-0.8**	**-0.8**	**-0.6**	**-0.5**	**-0.3**	**0.0**
	COM Nov 2007[2]	-0.2	-0.3	-0.3	-0.6	n.a.	n.a.	n.a.
	SP Dec 2006	*-0.6*	*-0.6*	*-0.5*	*-0.4*	*-0.3*	*n.a.*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Nov 2007**	**-2.1**	**-2.3**	**-2.5**	**-2.3**	**-2.2**	**-2.1**	**-2.0**
	COM Nov 2007	-2.1	-2.3	-2.2	-2.2	n.a.	n.a.	n.a.
	SP Dec 2006	*-2.0*	*-1.8*	*-1.8*	*-1.7*	*-1.6*	*n.a.*	*n.a.*
General government balance (% of GDP)	**SP Nov 2007**	**-2.5**	**-2.4**	**-2.3**	**-1.7**	**-1.2**	**-0.6**	**0.0**
	COM Nov 2007	-2.5	-2.6	-2.6	-2.7	n.a.	n.a.	n.a.
	SP Dec 2006	*-2.7*	*-2.5*	*-1.8*	*-0.9*	*0.0*	*n.a.*	*n.a.*
Primary balance (% of GDP)	**SP Nov 2007**	**0.0**	**0.2**	**0.5**	**0.9**	**1.4**	**2**	**2.5**
	COM Nov 2007	0.0	0.0	0.0	-0.1	n.a.	n.a.	n.a.
	SP Dec 2006	*-0.1*	*0.1*	*0.7*	*1.7*	*2.5*	*n.a.*	*n.a.*
Cyclically-adjusted balance[1] (% of GDP)	**SP Nov 2007**	**-2.3**	**-2.0**	**-1.9**	**-1.4**	**-1.0**	**-0.4**	**0.0**
	COM Nov 2007	-2.5	-2.4	-2.5	-2.4	n.a.	n.a.	n.a.
	SP Dec 2006	*-2.4*	*-2.2*	*-1.6*	*-0.7*	*0.2*	*n.a.*	*n.a.*
Structural balance[3] (% of GDP)	**SP Nov 2007**	**-2.5**	**-2.0**	**-1.9**	**-1.4**	**-1.0**	**-0.4**	**0.0**
	COM Nov 2007	-2.8	-2.5	-2.6	-2.4	n.a.	n.a.	n.a.
	SP Dec 2006	*-2.5*	*-2.2*	*-1.6*	*-0.7*	*0.2*	*n.a.*	*n.a.*
Government gross debt (% of GDP)	**SP Nov 2007**	**64.2**	**64.2**	**64**	**63.2**	**61.9**	**60.2**	**57.9**
	COM Nov 2007	64.2	64.3	64.1	64.1	n.a.	n.a.	n.a.
	SP Dec 2006	*64.6*	*63.6*	*62.6*	*60.7*	*58.0*	*n.a.*	*n.a.*

Notes:

[1] Output gaps and cyclically-adjusted balances from the programmes as recalculated by Commission services on the basis of the information in the programmes.

[2] Based on estimated potential growth of 2.0%, 2.1%, 2.0% and 2.1% respectively in the period 2006-2009.

[3] Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0.1% of GDP in 2006 and 0 for the rest of the period covered (2007-2012) according to the most recent programme. According to the Commission services' autumn forecast they are 0.3% of GDP in 2006, 0.05% of GDP in 2007 and 0.1% of GDP in 2008.

[4] As the most recent programme does not provide information for 2006 (except for cyclical developments), figures were taken from the Commission services' autumn 2007 forecast.

Source:

Stability programme (SP); Commission services' autumn 2007 economic forecasts (COM); Commission services' calculations.