COMMISSION OF THE EUROPEAN COMMUNITIES

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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 Greece, 2007-2010

(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 Greece was submitted in December 2000. In accordance with the Regulation, the Council delivered an opinion on it on 12 February 2001 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, the updated programmes 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 Greece, submitted on 27 December 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 2006-2009, as follows. "The Council considers that, following a significant fiscal consolidation and in a context of strong growth prospects, the programme is consistent with the correction of the excessive deficit by 2006 and it envisages progress towards the MTO. However, the MTO would not be attained within the programme period. The consolidation, which also relies on a significant decline in the interest burden, is subject to some risks as specific measures are only partially spelled out after 2007". In the light of in particular the projected increase in age-related expenditure and the high level of debt, the Council invited Greece to "strengthen the adjustment towards the MTO and ensure that the debt-to-GDP ratio is reduced accordingly", "to continue improving the budgetary process by further increasing its transparency, spelling out the budgetary strategy within a longer time perspective and effectively implementing mechanisms to monitor and control primary expenditure" and "improve the long-term sustainability of public finances by achieving the MTO, controlling public pension and healthcare expenditures and resolutely implementing ambitious reforms; and produce as soon as possible long-term projections for age-related expenditure".

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, Greece was recommended to "ensure the continuation of fiscal consolidation and debt reduction and fix a timetable for the implementation of pension reform with a view to improving long-term fiscal sustainability". 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 least

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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.

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 December 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 Greece's national reform programme[4]. This can be summarised as follows.

Greece's national reform programme identifies as key priorities, to restore fiscal balance and ensure the long-term sustainability of public finances, to increase productivity, by addressing the structural problems in the operation of markets, investing in human capital and promoting a Knowledge-Based Society, to improve the business environment, enhance competition, liberalise the markets and increase external openness, and to increase employment, combat unemployment and improve the effectiveness of the educational, training and re-training systems.

Greece has made steady progress in implementing its national reform programme over the period 2005-2007.

Against the background of strengths and weaknesses identified and the evidence on progress made, the Commission recommended that Greece is recommended to give highest priority to the challenges in the areas of: fiscal consolidation, reforms in the public administration, active labour market policies and education and life-long training. In addition, Greece should also focus on the areas of inflationary pressures and external imbalances, R&D and innovation, transposition of internal market legislation, SME policy targets set by the 2006 Spring European Council, competition in the area of professional services, environment protection, female participation in employment, early school leavers and ageing strategy.

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[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 Greece, 2007-2010

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[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 [4 March 2008] the Council examined the updated stability programme of Greece, which covers the period 2007 to 2010[8].

(2) Over the recent years, Greece has recorded high growth rates driven by buoyant private consumption and dynamic investment activity, while employment growth accelerated significantly. However, high inflation differentials with the euro area persist, and, in spite of a significant productivity growth, is leading to competitiveness losses, and widening external imbalances, which if continued in the medium term, might affect the performance of the economy. In this context, fiscal policy has a crucial role to play in stabilising the economy, improving its efficiency and diminishing the risks associated to overheating and widening external imbalances. Good progress has been made since 2004 to consolidate public finances in a sustainable manner. On that basis, controlling current primary expenditure, preventing a pro-cyclical stance of fiscal policy and stepping up public spending efficiency are paramount to securing fiscal discipline and improving the quality of public finances. Given the still high public debt level, the long-term sustainability of public finances

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.

8 The update was submitted 3 weeks beyond the 1 December deadline set in the code of conduct.

greatly depends on achieving and sustaining sound budgetary positions and implementing comprehensive reforms of pension and health care systems.

(3) The macroeconomic scenario underlying the programme envisages that real GDP growth will be sustained at about 4% on average over the programme period. Assessed against currently available information[9], this scenario appears to be based on favourable growth assumptions. In particular, private consumption and investment growth are projected in the stability programme to remain favourable, on the back of somewhat high employment growth and an optimistic assessment of the impact of some planned or implemented measures, such as the second phase of tax reform including further reduction in personal tax rates, legislated in 2006, the investment incentive law and the speeding-up of PPP (public-private partnerships) projects. As a result, the contribution of final domestic demand to GDP growth seems optimistic. Moreover, the evolution of labour cost may induce inflationary pressures, which are not taken into account in the programme, while competitiveness could deteriorate more than foreseen in the programme, especially in 2008. In addition, the recent hikes in international energy and food prices are not fully reflected in the inflation projection in the update.

(4) According to the programme, the general government deficit for 2007 is estimated to have rebounded to 2.7% of GDP in 2007 (from 2.5% in 2006), compared to the target deficit of 2.2% of GDP set in the previous update[10]. This deviation of ½ percentage point of GDP reflects, in addition to a small negative base effect, an expenditure overrun of some ¼ percentage point of GDP and a net deficit-increasing impact of one-offs of 0.3 percentage point of GDP[11]. The projected deficit outturn in the Commission services' autumn 2007 forecast is 2.9% of GDP, ¼ of a percentage point higher than in the programme, based on a more prudent assessment of tax revenues, which appears to be confirmed in view of current information. The estimated narrowing of the structural government deficit (i.e. the cyclically-adjusted deficit net of one-off and other temporary measures) in 2007 by some ½ percentage point of GDP, somewhat lower than planned in the previous update, is not fully in line with the invitation in the Council opinion of 27 February 2007 on the previous update of the stability programme[12] to "strengthen the adjustment towards the MTO". In view of the expenditure overruns, the implementation of the 2007 budget is also not fully in line with the April 2007 Eurogroup orientations for budgetary policies.

(5) The budgetary strategy outlined in the programme aims at speeding up fiscal consolidation towards the medium-term objective (MTO) of a balanced position in structural terms, by reducing the structural deficit by more than ½ percentage point of GDP per year, in line with the invitation of Council opinion of 27 February 2007 on

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9 The assessment takes notably into account the Commission services' autumn 2007 forecast and the Commission assessment of the October 2007 implementation report of the national reform programme.

10 Due to the recent upward revision of the Greek GDP series by 9.6% from 2000 onwards, the update's targets are not directly comparable to the ones in the previous update. In order to allow for a meaningful comparison, the figures from the previous update quoted here have been recalculated to take account of the denominator effect introduced by the GDP revision.

11 This net one-off impact is the combination of deficit-increasing one-offs of 0.7 percentage point (mainly related to arrears to the EU budget following the GDP revision, but also to expenditures related to the summer forest fires) and deficit-reducing measures of 0.4 percentage point of GDP (deferred payments by banks to the pension funds).

12 OJ C 70, 27.3.2007, p. 11.

the previous update of the stability programme "to strengthen the adjustment towards the MTO". In particular, the MTO is planned to be achieved earlier than the target year set in the previous update (2012), although still beyond the programme horizon (2010). The programme aims at attaining a balanced position in nominal terms by 2010, from a deficit of 2¾% of GDP in 2007. The primary surplus is projected to improve to 3¾% of GDP in 2010 from 1¼% in 2007. The planned adjustment is mainly revenue-based, stemming partly from the implementation of discretionary measures in indirect taxes and real estate taxation and partly from improving the tax system and intensifying the fight against tax evasion and fraud. While overall expenditure declines only marginally in terms of GDP, its composition is planned to shift, with social payments rising by 1 percentage point of GDP, broadly offset by cuts in intermediate consumption. Taking into account the mechanical impact of the recent GDP revision, the budgetary target presented in the programme is broadly similar to the one in the previous update for 2008 and improved for 2009 against a broadly comparable macroeconomic scenario. Government gross debt, estimated at 93.4% of GDP in 2007, clearly above the 60% of GDP Treaty reference value, is projected to decline by over 10 percentage points over the programme period.

(6) The budgetary outcomes could be worse than projected in the programme. The increase in tax revenues planned for 2008 is based on favourable macroeconomic assumptions and reflects an optimistic assessment of the efforts to avoid tax evasion and fraud. However, the effective implementation of revenue enhancing discretionary measures in 2008 should strengthen tax receipts, although the precise budgetary impact remains uncertain. For 2009 and 2010, the programme does not underpin budgetary targets with corresponding measures, while assumes a favourable macroeconomic scenario. In view of these risks to the budgetary targets, which are compounded by uncertainty about sizable future stock-flow adjustment, the evolution of the debt ratio could be less favourable than projected in the programme, especially after 2008.

(7) In view of this risk assessment, the budgetary stance in the update seems insufficient to ensure that the MTO is achieved just after the end of the programme period, as implied by the programme. In addition, a sufficient safety margin against breaching the 3% of GDP deficit threshold with normal macroeconomic fluctuations may not be provided before 2010. The update plans an adjustment towards the MTO above 0.5 percentage point of GDP per year, in line with the Stability and Growth Pact and higher compared with the previous update. However, the adjustment should be backed up with measures from 2009 onwards, in view of the risks identified above. As the structural adjustment planned for 2008 is higher than foreseen in the previous update, the plans for 2008 are in line with the April 2007 Eurogroup orientations for budgetary policies. However the risks identified above should be addressed. Finally, taking into account the risks to the projections of the debt ratio mentioned above, it seems to be sufficiently diminishing towards the reference value over the programme period. However it remains much higher than the reference value of 60% throughout the update horizon. In addition, the adjustment path has slowed down and is conditional on ambitious deficit targets.

(8) Greece appears to be at high risk with regard to the sustainability of public finances. The long-term budgetary impact of ageing cannot be duly assessed as long as commonly agreed long-term projections of pension expenditure are not available. However, it is likely to be well above the EU average. According to the latest available

information dating from the 2002 stability programme update, a substantial increase in pension expenditure as a share of GDP is projected over the long-term. The budgetary position in 2007 as estimated in the programme, which is similar to the starting position of the previous programme, constitutes a risk to sustainable public finances even before considering the long-term budgetary impact of an ageing population. Moreover, the current level of gross debt is well above the Treaty reference value. Reducing it requires achieving high primary surpluses for a long period of time. Consolidating the public finances as planned together with continuing the on-going reform in the healthcare system and undertaking a pension reform aimed at containing the likely significant increase in age-related expenditures would contribute to reducing risks to the long-term sustainability of public finances.

(9) The stability programme is consistent to some extent with the October 2007 implementation report of the national reform programme (NRP). While the measures in the area of public finances envisaged in the stability programme are consistent with those foreseen in the NRP, the stability programme contains only a partial qualitative assessment of the overall impact of the NRP within the medium term fiscal strategy. According to the programme, the majority of the measures and actions planned for 2008, included in the Implementation report of the NRP, and the relevant budgetary provisions have been included in the 2008 Budget Law. However, no systematic information on the direct budgetary costs or savings of the main reforms envisaged in the national reform programme is provided and, excluding 2008, budgetary projections do not explicitly take into account the public finance implications of the actions outlined in the Implementation report of the NRP.

(10) The budgetary strategy in the programme is broadly consistent with the country-specific broad economic policy guidelines and the guidelines and the guidelines for euro area Member States in the area of budgetary policies issued in the context of the Lisbon strategy.

(11) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme provides some gaps in the required and optional data[13]. However, it deviates on some material points from the model structure specified in the code of conduct[14].

The overall conclusion is that the programme envisages speeding up the reduction of the still large budget deficit, in a context of strong growth, to achieve a nominal budget balance in 2010, although the MTO is not planned to be achieved in structural terms within the programme period. This consolidation, which relies on a prompt implementation of the 2008 budget and a significant increase in tax revenues throughout the programme horizon, is subject to risks as the underlying macroeconomic scenario is favourable and the revenue-enhancing measures are not fully spelled out after 2008. Also, the reliance on results from the fight against tax evasion is significant and only partly backed up with reforms in tax collection. In addition, the planned cutbacks in some expenditure items (as a share of GDP)

[13] In particular, general government expenditure by function, long-term sustainability of public finances and information on debt developments (differences between cash and accruals, net accumulation of financial assets, valuation effects and other, liquid financial assets, net financial debt) are not provided.

[14] In particular, Section 7 on "Institutional features of public finances" is missing, while Section 6 ("Long term sustainability of public finances") provides limited information and refers to the projections included in the December 2002 update of the stability programme.

are not substantiated by specific measures and partly offset by plans to increase social payments. Ensuring a strong fiscal consolidation path would help address the imbalances of the Greek economy, notably persistent inflation, competitiveness losses and a large external deficit. The level of debt which remains among the highest in the euro area, coupled with the projected increase in age-related spending, will affect negatively the long term sustainability of public finances, which remains at high risk.

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

(i) carry-out the envisaged adjustment towards the MTO, reduce the debt-to-GDP ratio accordingly, and use any budgetary over-performance to speed up the consolidation process to reach the MTO within the programme period;

(ii) pursue the ongoing reforms of tax administration and continue improving the budgetary process by increasing its transparency, spelling out the budgetary strategy within a longer time perspective and effectively implementing mechanisms to monitor, control and improve the efficiency of primary expenditure;

(iii) in view of the level of debt and the projected increase in age-related expenditure, improve the long-term sustainability of public finances by achieving the MTO, continuing the on-going reforms in the healthcare system and reforming the pension system; updated long-term projections for age-related expenditure should be produced as soon as possible.

Greece is also invited to improve compliance with the submission deadline for stability and convergence programmes specified in the code of conduct[15].

[15] Late submissions affect the effectiveness and consistency of the multilateral surveillance process.

Comparison of key macroeconomic and budgetary projections[1]

		2006	2007	2008	2009	2010
Real GDP (% change)	**SP Dec 2007**	**4.2**	**4.1**	**4.0**	**4.0**	**4.0**
	COM Nov 2007	4.3	4.1	3.8	3.7	n.a.
	SP Dec 2006	*4.0*	*3.9*	*4.0*	*4.1*	*n.a.*
HICP inflation (%)	**SP Dec 2007**	**3.3**	**2.9**	**2.8**	**2.7**	**2.6**
	COM Nov 2007	3.3	2.8	3.1	3.1	n.a.
	SP Dec 2006	*3.3*	*3.3*	*2.8*	*2.6*	*n.a.*
Output gap[2] (% of potential GDP)	**SP Dec 2007**	**0.8**	**0.8**	**0.8**	**0.9**	**1.1**
	COM Nov 2007[3]	1.1	1.3	1.2	1.2	n.a.
	SP Dec 2006	*1.0*	*0.9*	*1.1*	*1.5*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Dec 2007**	**-12.3**	**-12.8**	**-12.7**	**-12.5**	**-12.2**
	COM Nov 2007	-9.6	-9.4	-9.5	-9.4	n.a.
	SP Dec 2006	*-8.9*	*-7.9*	*-7.6*	*-7.3*	*n.a.*
General government balance (% of GDP)	**SP Dec 2007**	**-2.5**	**-2.7**	**-1.6**	**-0.8**	**0.0**
	COM Nov 2007	-2.5	-2.9	-1.8	-1.8	n.a.
	SP Dec 2006	*-2.6*	*-2.4*	*-1.8*	*-1.2*	*n.a.*
	SP Dec 2006 adj	*-2.4*	*-2.2*	*-1.6*	*-1.1*	*n.a.*
Primary balance (% of GDP)	**SP Dec 2007**	**1.6**	**1.2**	**2.4**	**3.1**	**3.8**
	COM Nov 2007	1.6	1.0	2.1	2.0	n.a.
	SP Dec 2006	*2.0*	*2.0*	*2.4*	*2.9*	*n.a.*
Cyclically-adjusted balance[2] (% of GDP)	**SP Dec 2007**	**-2.8**	**-3.1**	**-1.9**	**-1.2**	**-0.5**
	COM Nov 2007	-3.0	-3.4	-2.4	-2.3	n.a.
	SP Dec 2006	*-3.0*	*-2.8*	*-2.3*	*-1.8*	*n.a.*
Structural balance[4] (% of GDP)	**SP Dec 2007**	**-3.2**	**-2.8**	**-2.0**	**-1.2**	**-0.5**
	COM Nov 2007	-3.5	-3.1	-2.4	-2.3	n.a.
	SP Dec 2006	*-3.4*	*-2.8*	*-2.3*	*-1.8*	*n.a.*
Government gross debt (% of GDP)	**SP Dec 2007**	**95.3**	**93.4**	**91.0**	**87.3**	**82.9**
	COM Nov 2007	95.3	93.7	91.1	88.8	n.a.
	SP Dec 2006	*104.1*	*100.1*	*95.9*	*91.3*	*n.a.*
	SP Dec 2006 adj	*95.0*	*91.3*	*87.5*	*83.3*	*n.a.*

Notes:

[1] The December 2007 update uses the official revised GDP (upward revision by 9.6%), according to the Eurostat press release of 22 October 2007 and are therefore not directly comparable to the figures of the December 2006 update. In order to allow for a meaningful comparison, the rows "SP Dec 2006 adj." show the targets in the December 2006 update as recalculated to take into account the denominator effect of the revised GDP. The Commission services' autumn 2007 forecast is based on an estimation of the revised GDP components, due to the lack of official statistical data on National Accounts by the cut-off date of the forecast.

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

[3] Based on estimated potential growth of 3.9%, 3.8% and 3.7% 2007-2009.

[4] Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0.4% of GDP in 2006, 0.3% in 2007 and 0.1% in 2008, deficit-reducing in 2006 and 2008, but deficit increasing in 2007, according to the most recent programme and 0.4% of GDP in 2006 and 0.3% in 2007, deficit-reducing in 2006 and deficit increasing in 2007 according to the Commission services' autumn forecast.

Source:

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