COMMISSION OF THE EUROPEAN COMMUNITIES

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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, 2008-2011

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. In particular, it introduced greater flexibility in the application of the rules governing the excessive deficit procedure, notably with regard to definition of "exceptional circumstances" and the setting of deadlines for the correction of an excessive deficit.

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.

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 19 December 2008, and its addendum, submitted on 31 December 2008, and has adopted a recommendation for a Council opinion on it.

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

(1) the Commission Communication of 26 November 2008 (“A European Economic Recovery Plan”),

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

(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).

2.1. The Commission Communication of 26 November 2008 (“A European Economic Recovery Plan”)

In view of the unprecedented scale of the global financial and economic crisis, the European Commission has called for a European Economic Recovery Plan (EERP)[2]. The plan proposes a

[1] OJ L 209, 2.8.1997, 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] Communication from the Commission to the European Council of 26 November 2008 - COM(2008) 800.

co-ordinated counter-cyclical macro-economic response to the crisis in the form of an ambitious set of actions to support the economy consisting of (i) an immediate budgetary impulse amounting to € 200 bn. (1.5% of EU GDP), made up of a budgetary expansion by Member States of € 170 bn. (around 1.2% of EU GDP) and EU funding in support of immediate actions of the order of € 30 bn. (around 0.3 % of EU GDP); and (ii) a number of priority actions grounded in the Lisbon Strategy and designed to adapt our economies to long-term challenges, continuing to implement structural reforms aimed at raising potential growth. The plan calls for the fiscal stimulus to be differentiated across Member States in accordance with their positions in terms of sustainability of government finances and competitive positions. In particular, for Member States outside the euro area with significant external and internal imbalances, budgetary policy should essentially aim at correcting such imbalances. The plan was agreed by the European Council on 11 December 2008. In this context, Member States were asked to submit an addendum to their updated stability or convergence programme, so as to reflect the measures taken in the context of the Recovery Plan. The examination of how measures (budgetary measures as well as structural measures) contribute to the recovery process in the short term is made in the opinions of stability convergence programmes.

2.2. The excessive deficit procedure for Hungary

On 5 July 2004, the Council adopted a decision stating that Hungary had an excessive deficit and addressed a recommendation to Hungary under Article 104(7) of the Treaty 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. After deciding twice based on Article 104(8) that Hungary did not take effective action in response to this first and a second recommendation (of March 2005), the Council adopted on 10 October 2006 for the third time a recommendation to Hungary under Article 104(7). This new recommendation extended the deadline for the correction of the excessive deficit by one year to 2009 in view of the substantial consolidation effort required given the high deficit level. In addition, Hungary was invited to adopt and implement swiftly the planned structural reforms in the areas of public administration, health-care, education and pension 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 Council welcomed the commitment of the Hungarian authorities to present semi-annual progress reports to the Commission and the Council until the abrogation of the excessive deficit procedure.

In April 2007, the Hungarian Government submitted the first progress report on the implementation of its consolidation and reform programmes. Taking into account this report, the Commission adopted a Communication in June 2007[3] concluding that Hungary had taken effective action regarding the recommendations of October 2006 but underlining that the planned adjustment crucially hinged upon further specifying and implementing the structural reform plans as well as on reinforcing the budgetary framework. Afterwards, in September 2007, in April 2008 and in November 2008 the authorities submitted successive progress reports, informing on the implementation of the fiscal consolidation measures and the recent progress with the structural reform agenda, which did not provoke any further step in the excessive deficit procedure.

[3] SEC(2007) 775.

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

In its opinion of 12 February 2008, the Council summarised its assessment of the previous update of the convergence programme, covering the period 2007-2011, as follows. "The overall conclusion is that the programme plans to continue the correction of high deficits of the past years through a necessary frontloaded adjustment effort and envisages modest progress towards the MTO after the planned correction of the excessive deficit in 2009. As a result of the consolidation measures and steps in structural reforms, Hungary is set to considerably outperform its deficit target for 2007 of 6.8% of GDP and to increase progress towards convergence." However, the Council also highlighted that "…from 2009 the achievement of the budgetary targets is subject to larger risks, linked mainly to possible expenditure overruns in case the announced wide-ranging reform agenda is not fully carried out. Thus, the durability of the planned adjustment hinges on the reinforcement of fiscal governance as well as on completing the structural reforms which are key not only to attract foreign direct investment but also to improve the long-term sustainability of public finances, for which Hungary remains at high risk". In view of this assessment, and also in the light of the recommendation under Article 104(7) of 10 October 2006, the Council invited Hungary to ”rigorously implement the 2008 budget, take adequate action to ensure the correction of the excessive deficit by 2009 as planned, where necessary through additional measures; and allocate the better-than-expected revenues to further deficit reduction; ensure expenditure moderation in a permanent manner by continuing to enhance fiscal rules and institutions and through the adoption and swift implementation of the remaining streamlining measures as announced in the fields of public administration, healthcare, and education system; in view of the level of debt and the increase in age-related expenditure, improve the long-term sustainability of public finances by making rapid progress towards the MTO, and continue to reform the pension system as announced after the steps already taken in 2006-2007".

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On the updated convergence programme of Hungary, 2008-2011

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[4], 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 [10 March 2009] the Council examined the updated convergence programme of Hungary, which covers the period 2008 to 2011.

(2) After a moderate pickup in the first half of 2008, GDP declined slightly in the third quarter and more strongly in the fourth quarter. Despite the improvement in Hungary's twin deficits in recent years, the country has remained vulnerable due to high levels of government and external debt. Consequently, the financial crisis hit Hungary particularly hard and led to a sharp exchange rate depreciation and dysfunction in many segments of the financial markets. Therefore, restoring investor confidence and improving the functioning of financial markets are the most imminent challenges of economic policy. To this end, the central bank introduced new instruments and a new economic programme was adopted containing further fiscal adjustments, tighter deficit targets as well as a bank rescue package and enhanced financial sector regulation. In support of these steps, Hungary has been granted a large (EUR 20 billion) international financial assistance[5], subject to progress in fiscal consolidation, fiscal governance reform, financial sector regulation and supervision and structural reforms[6],

[4] OJ L 209, 2.8.1997, 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.

[5] See Council decision providing Community medium-term financial assistance for Hungary (14953/2/08).

[6] For details on the EU medium-term financial assistance for Hungary, see the following thematic webpage: http://ec.europa.eu/economy_finance/thematic_articles/article13488_en.htm

from the EU, IMF and the World Bank. The economic programme associated with the loan is incorporated in both the 2009 budget and the convergence programme update. The Hungarian National Bank tightened monetary policy via successive interest rate hikes (from 8.50% in January 2008 to 12% in October 2008) before lowering rates in the last two months of 2008 (to 10% in December 2008). The Hungarian forint depreciated by 2.6% in nominal effective terms during 2008.

(3) The programme contains two different scenarios for the macroeconomic and budgetary projections: a "baseline" scenario and an "alternative" scenario. The "baseline" scenario is considered the reference scenario for assessing the budgetary projections because only this scenario contains detailed calculations concerning the breakdown of the budgetary and macroeconomic aggregates. It envisages that after subdued growth of around 1% in the previous two years real GDP growth will drop by 0.9% in 2009 before accelerating again to 1.6% and 2.5% in 2010 and 2011, respectively. Assessed against currently available information[7], the baseline scenario appears to be based on markedly favourable growth assumptions over the entire programme horizon, partly because the worsening of the growth prospects in trading partner countries is likely to be more pronounced than assumed by the programme scenario. Assuming a worse external trade performance and a somewhat larger decline in investment, the Commission services' January 2009 interim forecast projected GDP to drop by 1.6% in 2009 and then to accelerate to 1% in 2010. However, in view of recent information including the sharp fall in industrial production in December and the strong deceleration in credits to corporations and households in late 2008, the outcome is likely to be much worse (around -3¼% in 2009). The programme's inflation projection of 4.5% for 2009 also appears to be on the high side. Moreover, the strong export performance and the related improvement in the net financing capacity of the private sector over the programme horizon seems somewhat favourable.

(4) For 2008, the general government deficit is estimated at 3.3% of GDP in the Commission services' January 2009 interim forecast, against a target of 4% of GDP set in the previous update of the convergence programme. The overachievement of this target against the background of weak growth is chiefly due to a favourable base effect on both the revenue and expenditure side from 2007 (when the deficit reached 5% of GDP). In the course of 2008, higher-than-expected revenue growth resulting from the implementation of a set of measures addressing tax evasion was more than offset by stronger-than-expected expenditure growth.

(5) The update sets the 2009 budget deficit target at 2.6% of GDP which compares with 3.2% of GDP contained in the previous update and a projection of 2.8% of GDP in the Commission services' interim forecast. The target was tightened as part of the government response to the financial crisis and against the background of a significantly deteriorated macroeconomic scenario. Given the context of the financial crisis and the high deficit and public debt, the government did not adopt any fiscal stimulus measures. More recently however, in view of the sharper-than-expected economic downturn that is estimated to result in a revenue shortfall of around 1% of GDP, the Government adopted on 15 February an additional corrective package of

[7] The assessment notably takes into account the Commission services' January 2009 forecast, but also other information that has become available since then.

0.7% of GDP and revised its 2009 deficit target to 2.7-2.9% of GDP in the context of the first review of its new economic programme. The structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures), according to the information provided in the update and as recalculated by Commission services, is planned to improve by around 1¾ percentage points of GDP, pointing to a strongly restrictive fiscal policy stance.

(6) The main objective of the medium-term budgetary strategy in the update is to reduce the nominal deficit from 3.4% of GDP in 2008 to 2.6% of GDP in 2009, which is expected to be followed by a slight decline to 2.5% in 2010 and further to 2.2% of GDP in 2011. Since interest expenditure is anticipated to rise by half a percentage point of GDP in 2009, the primary balance shows a larger improvement in that year (exceeding 1 pp.), followed by a 0.3% of GDP improvement until 2011 to reach a surplus of 2.2% of GDP. The country's medium-term objective (MTO) for the budgetary position (a deficit of 0.5% of GDP in structural terms, i.e. cyclically-adjusted balance net of one-off and other temporary measures) is not expected to be achieved within the programme period. The overall budgetary consolidation of 1.2 percentage point of GDP is planned to be evenly distributed between the revenue and expenditure side. After 2009, the programme does not spell out the measures underlying the planned deficit reduction. The update estimates that the debt-to-GDP ratio has increased steeply in 2008 to slightly over 71%, chiefly linked to the utilisation of the first instalment of the financial assistance from the EU and the IMF mostly for reserve build-up. In 2009, the debt ratio is projected to increase further to 72.5%, but in the outer years it is foreseen to start declining at an increasing pace (to 69%), supported also by the gradual pick-up in growth.

(7) The budgetary outcomes are subject to downside risks, especially in the outer years of the programme. The risks to the deficit path stemming from the macroeconomic outlook are considerable throughout the entire programme period. A deeper and more protracted recession will imply significant across-the-board revenue shortfalls and moderate increases in expenditures. However, on the expenditure side, there have recently been a number of positive elements. Budgetary control has considerably improved since 2006 and the enacted reform steps appear to have structurally restrained the past pattern of budgetary slippages in some important areas (e.g. price subsidies). In addition, the government adopted further expenditure cuts of 0.7% of GDP for 2009 in response to the recent sharp deterioration of the economic outlook. Nevertheless, the risk of expenditure overruns cannot be ruled out, especially after 2009. In particular, the planned expenditure moderation might not be backed by follow-up steps in the reforms of the public administration, health and education systems and the further necessary budgetary measures do not seem to be fully specified and implemented. Even though the fiscal governance framework was considerably strengthened, the risk of a budgetary loosening compared to plans as evidenced by past experience cannot be fully discarded, also in view of the fact that the new budgetary framework is still untested. Risks to the budgetary targets equally apply to the debt ratio; therefore its evolution envisaged from 2009 might also be less favourable than projected in the programme.

(8) A number of pension reform steps have recently been implemented, which are expected to moderate somewhat the increase in future pension expenditure, but more needs to be done to this end. The budgetary position in 2008 as estimated in the programme improved from the estimated starting position of the previous programme,

however, the budgetary impact of population ageing remains high. The current level of gross debt is still above the Treaty reference value. Ensuring higher primary surpluses over the medium term, as already foreseen in the programme, as well as further pension reform steps as recently announced by the Government would contribute to reducing the medium risks to the sustainability of public finances.

(9) Until 2006 when the deficit peaked at 9.3% of GDP, the Hungarian budgetary framework was very vulnerable to fiscal slippages and was exposed recurrently to the electoral cycle. Following some gradual improvement in transparency and budgetary planning starting from 2006, a reform law of fiscal governance was adopted in November 2008 containing multi-annual numerical rules and the establishment of a Fiscal Council. The new body will carry out independent macroeconomic and budgetary forecasts as well as fiscal impact assessments, and assess the budgetary situation and budget proposals. If implemented with determination, the new set-up should be conducive to improving the transparency and sustainability of public finances. However, some important issues remain unresolved, such as the specification of effective enforcement mechanisms and the coverage of the subnational sector.

(10) In response to the financial crisis, the Hungarian authorities did not only tighten in October 2008 budgetary targets to reduce external financing needs of the economy as part of the new economic programme but also adopted a number of measures to ensure the stability of the financial sector. The coverage of the deposit guarantee scheme has been increased from HUF 6 million to HUF 13 million. The authorities also adopted a banking sector support scheme, which foresees the provision of interbank guarantees as well as a recapitalisation fund. Additionally, the central bank has taken a number of measures aimed at enhancing market liquidity, also supported by the repo agreement concluded with the European Central Bank. Further measures to strengthen financial market regulation and supervision are expected in line with the economic programme linked to the international financial assistance.

(11) In response to the economic crisis, the Hungarian authorities endorsed a budget-neutral package of measures to stimulate the economy, including structural reform steps. In the light of the need for correcting its significant external and internal imbalances, and in line with the EERP agreed in December by the European Council, the Hungarian authorities did not implement any fiscal stimulus measures. With a view to sustaining aggregate demand and employment over 2009 and 2010, the adopted measures include, notably, the acceleration of the absorption of EU structural funds and their reshuffling, as well as improving the access of small and medium sized enterprises to financing. Structural reforms are an important element of the EERP, and are especially a relevant avenue for policy action in Hungary in light of the limited scope for fiscal stimulus and the need to improve external competitiveness. Less emphasis has been put on strengthening competitiveness. Moreover, Parliament adopted in December the "Pathway to work" programme, which aims at creating incentives and improving employability of the low-skilled and long-term unemployed also through a partial reorientation of passive means in the Labour Market Fund towards active labour market policies. The programme includes a sharp increase in public works schemes, as well as training programmes and adds incentives for better cooperation between the targeted population and the Public Employment Service. In addition, the Government continued to reform in gradual steps the health-care and education systems and the public administration. These measures are related to the medium-term reform agenda and the country-specific recommendations proposed by

the Commission on 28 January 2009 under the Lisbon Strategy for Growth and Jobs. On 16 February, the Government announced further structural reforms in the area of pension, social benefits, and local governments.

(12) Given the macro financial risk, fiscal policy has to be restrictive. Following two years of restrictive policy, the stance of fiscal policy would be once again restrictive in 2009 against the background of a deep recession; in the outer years of the programme it would turn to broadly neutral. The update confirms the medium-term adjustment path laid down in the new economic policy programme of the authorities; thereby it is consistent with the commitments made in the context of EU medium-term financial assistance. However, the Commission services' interim forecast projecting a larger 2009 deficit at 2.8% of GDP together with the risks to the macroeconomic projections indicates that further consolidation measures might be necessary. Indeed, the government adopted a new corrective package of 0.7% of GDP, while revising its 2009 deficit target slightly upwards. The newly adopted fiscal governance reform should contribute to improving the long-term sustainability of public finances through the programmed reduction in the debt ratio. In view of the risk assessment, the budgetary stance in the programme seems broadly consistent with the adjustment path for the correction of the excessive deficit recommended by the Council, provided that all budgetary measures announced in the programme and more recently are fully implemented as well as possible within-the-year deviations are effectively corrected. In the years following the correction of the excessive deficit, the deficit reduction envisaged in the programme is limited and not backed up with measures. Finally, taking into account the risks to the debt projections mentioned above, the debt ratio is not sufficiently diminishing towards the reference value over the programme period.

(13) 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[8].

The overall conclusion is that, in spite of distinct improvements in its high imbalances, including the reduction in the budget deficit from 9.3% of GDP in 2006 to below 3½ of GDP in 2008, Hungary has been particularly exposed to the financial crisis and thus had to limit the financing need of the government rather than stimulate the economy during the economic downturn. In this context, it adopted a policy of further fiscal adjustments and tighter deficit targets to restore investor confidence. This strategy has been backed by international financial assistance from the EU, the IMF and the World Bank. The programme foresees a continuation of the front-loaded consolidation strategy, with another important adjustment in 2009 to 2.6% of GDP, and followed by a more moderate adjustment path towards a budget deficit of 2.2% of GDP by 2011. However, this deficit reduction path is subject to risks, especially since the macroeconomic assumptions underlying the programme have in the meantime become markedly favourable. This risk would be substantially reduced by the corrective measures adopted and structural steps recently announced by the Government together with the revision of the 2009 deficit target slightly upwards to 2.7-2.9% of GDP. Moreover, the adoption of the law on fiscal responsibility is an important step towards establishing prudent fiscal policy and, if implemented with determination, should contribute to the durability of the fiscal consolidation. Nevertheless, the sustainability of public finances also hinges on the

[8] In particular, the level of one-offs for 2007, the breakdown of stock-flow adjustment and some data on the long-term sustainability of public finances are not provided.

continuation of structural reforms, to the extent that they increase long-term growth, help meet budgetary targets, and reduce the country's vulnerabilities.

In view of the above assessment, the commitments made in the framework of international financial assistance, and also in the light of the recommendation under Article 104(7) of 10 October 2006 and also given the need to ensure sustainable convergence, Hungary is invited to:

(i) in view of the risks, maintain adequate buffers, take the necessary measures to keep the budget deficit below the 3% of GDP threshold, and ensure that adequate progress in budgetary consolidation is made, thereby setting the debt-to-GDP ratio on a declining path towards the 60% of GDP threshold;

(ii) ensure full implementation of the fiscal responsibility law, continue expenditure moderation through further reforming of public administration, healthcare, and education systems, as announced, and strengthen financial market regulation and supervision;

(iii) in view of the level of debt and the increase in age-related expenditure, further improve the long-term sustainability of public finances; continue to reform the pension system after the steps already taken in 2006-2008.

Comparison of key macroeconomic and budgetary projections

		2007	2008	2009	2010	2011
Real GDP (% change)	**CP Dec 2008**	**1.1**	**1.3**	**-0.9**	**1.6**	**2.5**
	COM Jan 2009	1.1	0.9	-1.6	1.0	n.a.
	CP Nov 2007	*1.7*	*2.8*	*4.0*	*4.1*	*4.2*
HICP inflation (%)	**CP Dec 2008**	**7.9**	**6.2**	**4.5**	**3.2**	**3.0**
	COM Jan 2009	7.9	6.1	2.8	2.2	n.a.
	CP Nov 2007	*7.9*	*4.8*	*3.0*	*2.9*	*2.8*
Output gap[1] (% of potential GDP)	**CP Dec 2008**	**1.9**	**1.1**	**-1.7**	**-1.9**	**-1.1**
	COM Jan 2009[2]	2.7	2.3	-0.1	0.4	n.a.
	CP Nov 2007	*-0.9*	*-1.8*	*-1.5*	*-0.9*	*-0.5*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**CP Dec 2008**	**-5.3**	**-5.1**	**-3.7**	**-2.5**	**-1.6**
	COM Jan 2009	-5.3	-6.0	-4.0	-3.5	n.a.
	CP Nov 2007	*-4.1*	*-2.3*	*-1.7*	*-1.3*	*-0.8*
General government revenue (% of GDP)	**CP Dec 2008**	**44.9**	**45.2**	**45.8**	**46.0**	**45.8**
	COM Jan 2009	44.9	45.5	46.1	46.4	n.a.
	CP Nov 2007	*44.1*	*44.2*	*43.3*	*42.4*	*42.0*
General government expenditure (% of GDP)	**CP Dec 2008**	**49.8**	**48.6**	**48.4**	**48.5**	**48.0**
	COM Jan 2009	49.8	48.8	48.9	49.5	n.a.
	CP Nov 2007	*50.3*	*48.2*	*46.5*	*45.1*	*44.2*
General government balance (% of GDP)	**CP Dec 2008**	**-5.0**	**-3.4**	**-2.6**	**-2.5**	**-2.2**
	COM Jan 2009	-5.0	-3.3	-2.8	-3.0	n.a.
	CP Nov 2007	*-6.2*	*-4.0*	*-3.2*	*-2.7*	*-2.2*
Primary balance (% of GDP)	**CP Dec 2008**	**-0.9**	**0.6**	**1.9**	**2.0**	**2.2**
	COM Jan 2009	-0.9	0.8	1.6	1.5	n.a.
	CP Nov 2007	*-2.2*	*0.1*	*0.6*	*0.8*	*1.1*
Cyclically-adjusted balance[1] (% of GDP)	**CP Dec 2008**	**-5.8**	**-3.9**	**-1.8**	**-1.6**	**-1.7**
	COM Jan 2009	-6.2	-4.3	-2.8	-3.2	n.a.
	CP Nov 2007	*-6.0*	*-3.5*	*-2.8*	*-2.5*	*-2.1*
Structural balance[3] (% of GDP)	**CP Dec 2008**	**-4.9**	**-3.5**	**-1.8**	**-1.6**	**-1.7**
	COM Jan 2009	-5.3	-4.0	-2.8	-3.2	n.a.
	CP Nov 2007	*-4.9*	*-3.7*	*-2.9*	*-2.5*	*-2.1*
Government gross debt (% of GDP)	**CP Dec 2008**	**65.8**	**71.1**	**72.5**	**72.2**	**69.0**
	COM Jan 2009	65.8	71.9	73.8	74.0	n.a.
	CP Nov 2007	*65.4*	*65.8*	*64.4*	*63.3*	*61.8*

Notes:

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

[2] Based on estimated potential growth of 1.7%, 1.3%, 0.9% and 0.5% respectively in the period 2007-2010.

[3] Cyclically-adjusted balance excluding one-off and other temporary measures. Cyclically-adjusted balances according to the programmes as recalculated by the Commission services on the basis of the information in the programmes. One-off and other temporary measures are 0.9% of GDP in 2007 and 0.4% in 2008; all deficit-increasing, according to the most recent programme and 0.9% of GDP in 2007 and 0.3% of GDP in 2008; all deficit-increasing, according to the Commission services' January 2009 interim forecast.

Source:

Convergence programme (CP); Commission services' January 2009 interim forecasts (COM); Commission services' calculations.