EN

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24.6.2009
SEC(2009) 868 final

Recommendation for a

COUNCIL OPINION

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

On the updated convergence programme of Romania, 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 the 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 Romania, submitted on 3 June 2009, 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);

(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).

[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.

2.1. 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 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. While it is still relatively early to assess the impact of these measures, the opinions of stability and convergence programmes include a preliminary evaluation of how measures (budgetary measures as well as structural measures) contribute to the recovery process in the short term.

2.2. Current status in the excessive deficit procedure

On 12 June 2008, the Commission addressed to Romania a Recommendation providing a policy advice[3] on the economic and budgetary policy in Romania, recommending the country among others to implement rigorously the policy invitations of the Council issued on 12 February 2008 on the updated convergence programme of Romania for the period 2007 to 2010 so as to ensure that the general government deficit does not breach the 3% of GDP reference value and to help contain external imbalances. Despite the Commission policy advice issued in June 2008, the budgetary slippages heightened in the remaining part of the year and three quarters of the 2008 deficit in cash terms were created in the second half of 2008.

As a result, according to the April 2009 EDP notification by the Romanian authorities, subsequently validated by Eurostat, the general government deficit in Romania reached 5.4% of GDP in 2008, thus exceeding the 3% of GDP reference value. In view of the reported breach of the Treaty reference value and taking into account the Commission services' spring 2009 forecast, the Commission adopted a report under Article 104(3) for Romania on 13 May 2009, which concluded that the deficit was not close to the 3% of GDP reference value and that the excess over the reference value cannot be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact. In particular, it does not result from an unusual event or from a severe economic downturn in 2008 in the sense of the Treaty and the Stability and Growth Pact. Despite growth slowing down in the final quarter of the year, overall GDP growth in 2008 accelerated to a rate of 7.1%, from 6% in 2007 and significantly

[2] Communication from the Commission to the European Council - COM(2008) 800, 26.11.2008.

[3] Commission Recommendation of 12 June 2008, providing a policy advice on the economic and budgetary policy in Romania.

above the rate of potential growth. Furthermore, the excess over the reference value cannot be considered temporary. According to the Commission services' spring 2009 forecast the general government deficit is expected to reach 5.1% of GDP in 2009 and 5.6% in 2010. The deficit criterion in the Treaty is not fulfilled.

Taking into account the opinion of the EFC according to Article 104(4), the Commission proceeded in line with Article 104(5)-(7), and prepared an Opinion on the existence of an excessive deficit, a Recommendation for a Council Decision on the existence of an excessive deficit and a Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive government deficit. These take into account the new update of the Romanian convergence programme, which broadly incorporates the economic programme supported by an international financial assistance package funded by the EU, the IMF, the World Bank, EIB and EBRD (EUR 20 billion). These were adopted by the Commission on [24 June 2009] together with the attached Recommendation for a Council Opinion on the new programme.

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 2007-2010, as follows. "The programme is not in line with a prudent fiscal policy, necessary to contain the growing external deficit and inflationary pressures which put at risk macroeconomic and financial stability and the convergence process. The programme does not envisage a reduction of the deficits, entailing a risk of an excessive deficit. Progress towards the MTO is insufficient and fully back-loaded despite strong growth prospects. In view of the risks to the budgetary targets and the significant adjustment that would be necessary after the programme period, the MTO is unlikely to be achieved by 2011 as planned".

In view of the above assessment, the Council recommended Romania to "significantly strengthen the pace of adjustment towards the MTO by aiming for substantially more demanding budgetary targets in 2008 and subsequent years in order to contain the risk of an excessive deficit, foster macroeconomic stability and rein in widening external imbalances and address the risks to the long-term sustainability of public finances; restrain the envisaged high increase in public spending, improve its expenditure composition so as to enhance the economy's growth potential and improve the planning and execution of expenditure within a binding medium-term framework; pursue policies to contain inflationary pressures, complementing the recommended tighter fiscal stance, with appropriate public wage policy and further structural reforms".

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 Romania, 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 [7 July 2009] the Council examined the updated convergence programme of Romania, which covers the period 2008 to 2011.

(2) GDP growth in Romania averaged 6.3% annually between 2002 and 2008. The boom, which was fuelled by foreign direct investment and other capital inflows, has led to overheating and unsustainable imbalances. The current account deficit peaked at 13.5% of GDP in 2007 and decreased only marginally to 12.3% of GDP in 2008. The high external borrowing was also driven by a procyclical fiscal policy with the government deficit more than doubling from 2.5% of GDP in 2007 to 5.4% of GDP in 2008.

During the first half of 2008, the degree of restrictiveness of monetary policy increased significantly, amid successive policy rate hikes up to 10.25% in July, following excess domestic demand, currency weakening and adverse supply shocks. Since the beginning of 2009, the central bank maintained a prudent monetary policy stance and has cut the policy rate by a cumulative 75bps since February 2009 in two steps, following the reduction of demand pressures and easing inflationary pressures

[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.

(3) The global economic downturn and increased investor-risk aversion towards home-grown vulnerabilities have triggered a significant drop in capital inflows to Romania. This resulted in a sharp deceleration of GDP growth in the fourth quarter of 2008, followed by a contraction of 6¼% year-on-year in the first quarter of 2009. Pressures on the exchange rate also increased, with the RON depreciating by 7% in January 2009, following a 10% depreciation in 2008. In order to cushion the effects of the sharp drop in private capital inflows and to facilitate an orderly adjustment of the external deficit, Romania has been granted a large (EUR 20 billion) international financial assistance package[5] from the EU, the IMF,the World Bank, the EIB and the EBRD. A cornerstone of the package's economic policy conditions is fiscal consolidation, targeting a gradual reduction of the public deficit from 5.4% of GDP in 2008 to 5.1% in 2009, 4.1% in 2010 and below 3% in 2011. Furthermore, the Romanian government has committed to undertake specific measures aimed at improving expenditure control and fiscal governance, among others the restructuring of the public compensation system, the introduction of a unified pay system for public employees, a reform of the public pension system, a binding medium-term budgetary framework and the establishment of an independent fiscal council. Measures will also be taken to improve financial sector supervision and stepping up the pace of structural reform.

(4) The macroeconomic scenario underlying the programme envisages that real GDP will contract by 4% in 2009, followed by 0.1% growth in 2010 and 2.4% in 2011. This scenario, which was finalised in May, is in line with the Commission services' spring 2009 forecasts; in view of the worse-than-expected GDP growth contraction in the first quarter of 2009 as well as the uncertainty related to the global economic downturn and the ongoing correction of economic imbalances in Romania, it now appears to be based on slightly favourable growth assumptions. The programme’s projections for inflation appear realistic. The anticipated reduction of the current account deficit from 12.3% of GDP in 2008 to 7.5% in 2009, 6.5% in 2010 and 6.3% in 2011 appears to be in line with the domestic and external demand projections.

(5) For 2008, the programme update estimates the deficit outcome for 2008 at 5.4% of GDP, against a target of 2.9% of GDP set in the previous update of the convergence programme. The significant deviation is mainly due to weak budgetary planning and execution, which resulted in substantially higher-than-planned current spending, notably in public wages and social transfers. In addition, overly optimistic revenue projections did not materialise and a sudden drop in revenue collection in the last two months of the year owing to the economic slowdown added to the worse-than-expected outcome.

(6) The update of the convergence programme targets a deficit of 5.1% of GDP in 2009. The 2009 budget adopted in February 2009 contains several measures to lower the deficit, including a recruitment freeze and the reduction of various bonuses in the public sector, cuts in expenditure for goods and services and subsidies, a 3.3 percentage points rise in the pension contribution rate and a bringing forward of the schedule to increase excise taxes. In the budget rectification approved in April 2009, the government has adopted additional expenditure-driven fiscal adjustment measures,

[5] See Council Decision 2009/458/EC of 6 May 2009 granting mutual assistance for Romania and Council Decision 2009/459/EC of 6 May providing Community medium-term financial assistance for Romania.

including further cuts in the public sector wage bill, expenditure on goods and services, some capital spending and subsidies. On the revenue side, measures in the amended 2009 budget aim at eliminating certain tax deductions and allowances (in particular for company cars and depreciation of revalued assets). On the other hand, the government plans a substantial increase in public investment in 2009 compared with 2008, also as a means to sustain the economic recovery. In addition, given the need for fiscal consolidation, only a limited set of fiscal stimulus measures (amounting to roughly ¾% of GDP) has been adopted aiming at supporting businesses, labour market and household income. The overall fiscal stance balance (cyclically-adjusted net of one-off and other temporary measures) in 2009, as measured by the almost 3% of GDP reduction in the structural balance recalculated by the Commission services using the commonly agreed methodology based on the information provided in the programme, is estimated to be strongly restrictive.

(7) The main goal of the medium-term budgetary strategy in the programme is to progress towards the medium-term objective (MTO) of a structural deficit of 0.9% of GDP, with the aim of achieving it by 2012 (i.e. beyond the programme period). The general government headline deficit is projected to be gradually reduced from 5.1% of GDP in 2009 to 4.1% of GDP in 2010 and 2.9% of GDP in 2011. The primary balance follows a similar trend. The adjustment path is based on a reduction of expenditure by 1.5 percentage point of GDP, notably substantial cuts in compensation of employees and intermediate consumption. These cuts are partly offset by a significant increase in public investment as a share of GDP. Revenue is expected to increase by 1.1 percentage point of GDP, notably as a result of an assumed increase in EU funds and the increase in social security contributions in 2009. After 2009, the programme does not sufficiently specify the concrete measures and their expected budgetary impact underlying the planned deficit reduction, in particular with respect to the significant decrease in compensation of employees. Government gross debt stood at 13.6% of GDP in 2008 and is projected in the programme to steeply increase to 22% of GDP in 2011 due to the high primary deficits and a significant increase in interest payments on government debt.

(8) The budgetary outcomes in all programme years are subject to downside risks. In 2009, the risks stem from the macroeconomic outlook, which could be worse than anticipated. In addition, there are risks concerning the effective implementation of the planned expenditure measures in 2009, notably given the slippages in the public wage bill already observed since the beginning of 2009 and potential spending pressures in an electoral year. Moreover, in 2010 and 2011, the achievement of the budgetary targets needs to be underpinned by concrete measures. In view of the negative risks to the budgetary targets, the debt ratio could increase more than projected in the programme.

(9) The long-term budgetary impact of ageing is well above the EU average, mainly as a result of a relatively high increase in pension expenditure as a share of GDP over the coming decades. The budgetary position in 2008, as estimated in the programme, which is worse than the starting position of the previous programme, compounds the budgetary impact of population ageing on the sustainability gap. Reducing the primary deficit over the medium term, as already foreseen in the programme, further reforming the pension system to curb the substantial increase in age-related expenditures and improving the efficiency and effectiveness of healthcare spending would contribute to

reducing risks to the sustainability of public finances, which are currently at high level.

(10) The fiscal deficits and the pro-cyclicality of the fiscal policy in Romania can be mainly explained by a weak budgetary planning and execution. Initial budgets have suffered from an over-estimation of revenue and there have been several in-year budgetary rectifications, increasing current expenditure levels and shifting capital to current spending. Furthermore, there is a high degree of uncertainty as large expenditure outlays are operated in the last few months of the year. The primary current spending overruns coupled with a suboptimal composition of spending have put increasing strain on public resources and have reduced the scope for growth-enhancing capital spending. While the current spending overruns reflect the absence of a long-term strategy for public sector wages and pensions, the underperformance in terms of capital spending can be partly attributed to the weak administrative capacity to plan and execute public investment projects.

To increase the predictability of public finances and the soundness of fiscal policy planning, the Romanian authorities have committed under the EU balance of payment assistance to adopt measures aimed at strengthening fiscal governance. These measures foresee the implementation of a binding medium-term budgetary framework, covering the general government and including binding budgetary rules on both revenue and expenditure and the establishment of an independent fiscal council. However, the convergence programme fails to specify concrete steps towards the implementation of the envisaged measures. In the area of tax administration, the convergence programme foresees the improvement in the efficiency of revenue collection through the reform of tax administration and a broadening of the tax base in sectors such as environment and agriculture.

(11) In response to the financial crisis, the Romanian authorities have adopted several measures aimed at maintaining the stability of the banking sector and mitigating financial market pressures. Under the deposit guarantee scheme, the level of deposit guarantee coverage was increased from €20 000 to €50 000. To improve the access of SMEs to financing and support exports under the current juncture, the Romanian government decided an increase in the capital of two state-owned banks (CEC and EximBank) amounting to 0.2% of GDP and the establishment of a SMEs credit counter guarantee scheme. Moreover, regulatory requirements for RON liabilities were eased, as the minimum reserve requirements for RON liabilities were reduced from 20% to 18%. Furthermore, under the EU balance of payment assistance, the Romanian authorities have committed to amend banking and winding-up laws to allow for a timely and effective response in cases of bank distress and to strengthen the remedial powers of the National Bank of Romania.

(12) In line with the European Economic Recovery Plan adopted in December 2008 by the European Council and taking into account the absence of scope for fiscal manoeuvre, Romania has adopted only a limited number of fiscal stimulus measures, amounting to roughly ¾% of GDP in 2009, aimed at supporting household income, the corporate sector as well as labour markets. To support household income, the government decided to increase by 3 months the period for which unemployment benefits will be paid and to introduce a "minimum" social pension for low-income pensioners. The measures for supporting the corporate sector include the non-taxation of reinvested profits, an extension of the car-scrapping scheme as well as the allocation of funds for

export promotion. The labour market measures are mainly targeted towards supporting professional training for both unemployed and employees. Furthermore, within the budget envelope for 2009, the government aims at allocating a substantial part of spending to public investment to sustain recovery. In line with the policy areas covered in the country specific recommendations issued by the Council in the framework of the Lisbon strategy, the Romanian authorities have committed under the EU balance of payments assistance to implement structural reform measures for improving the efficiency and effectiveness of public administration, increasing the absorption of EU funds, improving the business environment and tackling undeclared work.

(13) Romania has adopted a budgetary consolidation programme in line with the aim of reducing external and internal imbalance and with the requirements under the EU financial assistance provided by the EU and other international lenders. According to the convergence programme, the fiscal stance as measured by the change in the structural balance using the commonly agreed methodology is estimated to be restrictive over the programme period. Considering the absence of room for fiscal manoeuvre and the need to correct economic imbalances, this appears appropriate. The update programme foresees a breach of the 3% of GDP deficit reference value until 2011. The budgetary targets in the programme are consistent with the commitments made in the context of EU balance of payments assistance, although budgetary outcomes are subject to risks. However, the convergence programme does not reflect in a clear manner the commitments in terms of additional fiscal measures agreed under the balance of payments programme, notably with respect to the foregoing of public sector wage increases or equivalent further cuts in employment, and further reductions in subsidies to public entities. Furthermore, the updated programme does not reflect the commitments to reform key parameters of the pension system (e.g. indexation of public pensions and the retirement age), which is crucial for improving long-term sustainability of public finances. Finally, it does not provide sufficiently detailed information on the concrete measures and their budgetary impact, needed to achieve the deficit targets in 2010 and 2011.

(14) 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[6].

The overall conclusion is that, while Romania is facing a severe economic downturn following years of above-potential economic growth, the restrictive fiscal stance envisaged between 2009 and 2011 is an adequate response, considering the absence of room for fiscal manoeuvre and the need to correct imbalances. In 2008, fiscal policy continued to be highly procyclical, mostly due to a rapid expansion of the public wage bill and weak budgetary management. In line with the commitments made by Romania in the framework of the EU balance of payment assistance, the authorities envisage to undertake a significant fiscal consolidation effort starting in 2009, driven by expenditure reductions and targeting a deficit of below 3% of GDP by 2011. Taking into account risks related to the macroeconomic scenario in 2009, to the effective implementation of the planned expenditure measures and the lack of information on concrete measures needed to underpin fiscal consolidation after 2009,

[6] In particular, the data on hours worked, general government expenditure by function and several items on long-term sustainability of public finances were missing.

the budgetary outcomes in the programme are subject to downside risks. Furthermore, measures are envisaged to address the weaknesses in budgetary planning and execution, among others through the implementation of a binding medium-term fiscal framework, the establishment of fiscal rules and of a fiscal council and by restructuring the public compensation system. However, the programme fails to specify concrete steps towards the implementation of the envisaged measures for improving fiscal governance.

In view of the above assessment and taking into account the recommendations addressed to Romania to correct the excessive deficit adopted by the Council on [7 July 2009] under Article 104(7) and the need to ensure sustainable convergence, and in line with the economic policy measures envisaged under the economic programme supported by Community balance-of-payments assistance, Romania is invited to:

(i) ensure the correction of the excessive deficit by 2011; to this effect implement the fiscal measures as planned in the February 2009 budget and the April 2009 amended budget, especially in the area of public sector wages and pension reform; take further corrective action if needed to achieve the 2009 deficit target in order to ensure compliance with the commitments undertaken under the programme supported by EC balance-of- payments assistance; and specify measures to buttress the envisaged reduction of the deficit in 2010 and 2011, in particular those underpinning the planned reduction of the public wage bill;

(ii) undertake concrete steps towards the envisaged strengthening of fiscal governance and transparency, in particular by setting up a binding medium-term budgetary framework, establishing an independent fiscal council, introducing limits on budgetary revisions during the year and laying-out fiscal rules as well as restructuring the public compensation system, including pay and bonuses; in the area of tax administration, improve the efficiency of revenue collection through the reform of tax administration and a broadening of the tax base;

(iii) accelerate the reform of the pension system (in particular with respect to the indexation of pensions and the retirement age) to curb the substantial increase in age-related expenditures and reduce the risks to the sustainability of public finances and improve effectiveness and efficiency of healthcare spending;

(iv) strengthen the supply side of the economy by making tangible progress with the implementation of the structural reforms, notably by enhancing the efficiency and effectiveness of public administration, improving the business environment, tackling undeclared work and by increasing the absorption and improving the use of EU funds.

Comparison of key macroeconomic and budgetary projections

		2007	2008	2009	2010	2011
Real GDP (% change)	**CP June 2009**	**6.2**	**7.1**	**-4.0**	**0.1**	**2.4**
	COM Spring 2009	6.2	7.1	-4.0	0.0	n.a.
	CP Dec 2007	*6.1*	*6.5*	*6.1*	*5.8*	*n.a.*
HICP inflation (%)	**CP June 2009**	**4.5**	**7.9**	**5.8**	**3.5**	**3.2**
	COM Spring 2009	4.9	7.9	5.8	3.5	n.a.
	CP Dec 2007	*4.8*	*5.7*	*4.0*	*3.3*	*n.a.*
Output gap[1] (% of potential GDP)	**CP June 2009**	**6.7**	**8.7**	**0.5**	**-2.5**	**-2.9**
	COM Spring 2009[2]	6.6	8.5	0.2	-3.0	n.a.
	CP Dec 2007	*2.1*	*2.1*	*1.8*	*1.1*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**CP June 2009**	**-12.9**	**-11.9**	**-6.3**	**-5.4**	**-5.2**
	COM Spring 2009	-12.8	-11.8	-6.4	-5.1	n.a.
	CP Dec 2007	*-12.6*	*-10.5*	*-10.1*	*-10.2*	*n.a.*
General government revenue (% of GDP)	**CP June 2009**	**34.0**	**33.1**	**33.2**	**33.7**	**34.2**
	COM Spring 2009	34.0	33.1	33.4	33.3	n.a.
	CP Dec 2007	*37.4*	*39.8*	*39.9*	*40.8*	*n.a.*
General government expenditure (% of GDP)	**CP June 2009**	**36.6**	**38.5**	**38.3**	**37.8**	**37.0**
	COM Spring 2009	36.6	38.5	38.5	38.9	n.a.
	CP Dec 2007	*40.3*	*42.7*	*42.8*	*43.2*	*n.a.*
General government balance (% of GDP)	**CP June 2009**	**-2.5**	**-5.4**	**-5.1**	**-4.1**	**-2.9**
	COM Spring 2009	-2.5	-5.4	-5.1	-5.6	n.a.
	CP Dec 2007	*-2.9*	*-2.9*	*-2.9*	*-2.4*	*n.a.*
Primary balance (% of GDP)	**CP June 2009**	**-1.8**	**-4.7**	**-3.60**	**-2.4**	**-1.4**
	COM Spring 2009	-1.8	-4.7	-3.6	-4.0	n.a.
	CP Dec 2007	*-2.0*	*-2.1*	*-2.1*	*-1.6*	*n.a.*
Cyclically-adjusted balance[1] (% of GDP)	**CP June 2009**	**-4.7**	**-8.2**	**-5.3**	**-3.3**	**-2.0**
	COM Spring 2009	-4.5	-7.9	-5.2	-4.7	n.a.
	CP Dec 2007	*-3.6*	*-3.6*	*-3.5*	*-2.8*	*n.a.*
Structural balance[3] (% of GDP)	**CP June 2009**	**-4.5**	**-8.2**	**-5.3**	**-3.3**	**-2.0**
	COM Spring 2009	-4.4	-7.9	-5.2	-4.7	n.a.
	CP Dec 2007	*-3.4*	*-3.4*	*-3.4*	*-2.7*	*n.a.*
Government gross debt (% of GDP)	**CP June 2009**	**12.7**	**13.6**	**18.0**	**20.8**	**22.0**
	COM Spring 2009	12.7	13.6	18.2	22.7	n.a.
	CP Dec 2007	*11.9*	*13.6*	*14.2*	*14.9*	*n.a.*

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 5.1%, 5.2%, 3.9% and 3.2% respectively in the period 2007-2010.

[3] Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0.2% of GDP in 2007 deficit-reducing and 0% over the period 2008-2011 according to the most recent convergence programme and 0.2% of GDP in 2007 deficit-reducing and 0% over the period 2008-2010 according to the Commission services' spring 2009 forecast.

Source:

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