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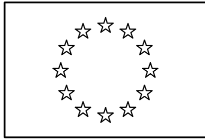

EUROPEAN COMMISSION

Brussels,
SEC(2010) 286/2

Recommendation for a

COUNCIL OPINION

on the updated stability programme of France, 2009-2013

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 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.

In accordance with the Regulation, the Council delivered an opinion on first stability programme of France on 15 March 1999 on the basis of a recommendation from the Commission and after having consulted the Economic and Financial Committee. As regards updated stability and convergence programmes, the Regulation foresees that these are assessed by the Commission and examined by the Committee mentioned above 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 France, submitted on 1 February 2010, 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 stability programme is assessed, the following paragraphs summarise:

(1) the Commission Communication of 26 November 2008 ("A European Economic Recovery Plan");

(2) the conclusions of the Economic and Financial Affairs Council of 20 October 2009 on the "Exit strategy";

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

(4) 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).

[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/sgp/index_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 crisis that hit financial markets and the world economy in 2008-2009, the European Commission had called for a European Economic Recovery Plan (EERP)[2]. The plan proposed 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 called for the fiscal stimulus to be differentiated across Member States in accordance with their positions in terms of sustainability (or room for manoeuvre) of government finances and competitive positions. In particular, for Member States 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.

2.2. The conclusions of the Economic and Financial Affairs Council of 20 October 2009 on the "Exit strategy"

Following the halt of the sharp decline in economic activity and first signs of a recovery from the crisis, the stabilisation of financial markets and the improvement in confidence, the Council concluded on 20 October 2009 that, while in view of the fragility of the recovery it was not yet time to withdraw the support governments provided to the economy and the financial sector, preparing a coordinated strategy for exiting from the broad-based policies of stimulus was needed. Such a strategy should strike a balance between stabilisation and sustainability concerns, take into account the interaction between the different policy instruments, as well as the discussion at global level. Early design and communication of such a strategy would contribute to underpinning confidence in medium-term policies and anchor expectations. Beyond the withdrawal of the stimulus measures of the European Economic Recovery Plan, substantial fiscal consolidation was required in order to halt and eventually reverse the increase in debt and restore sound fiscal positions. Increasing the efficiency and effectiveness of public finances and the intensification of structural reform were desirable even in the short term as they would contribute to fostering potential output growth and debt reductions. The Council agreed on the following principles of the fiscal exit strategy: (i) the strategy should be coordinated across countries in the framework of a consistent implementation of the Stability and Growth Pact; (ii) taking country-specific circumstances into account, timely withdrawal of fiscal stimulus was needed; provided that the Commission forecasts continued to indicate that the recovery was strengthening and becoming self-sustaining, fiscal consolidation in all EU Member States should start in 2011 at the latest; (iii) in view of the challenges, the pace of consolidation should be ambitious, in most countries going well beyond the benchmark of 0.5% of GDP per annum in structural terms; and (iv) important flanking policies to the fiscal exit would include strengthened national budgetary frameworks for underpinning the credibility of consolidation strategies and measures to support long-term fiscal sustainability; in addition, structural reform efforts should be strengthened to enhance productivity and to support long-term investment. The Council

[2] Communication from the Commission to the European Council of 26 November 2008.

agreed that these elements should be reflected in the stability and convergence programmes, to be transmitted by Member States to the Commission by the end of January 2010.

2.3. The excessive deficit procedure for France

On 27 April 2009, the Council adopted a decision stating that France had an excessive deficit in accordance with Article 104(6) of the Treaty establishing the European Community (TEC). At the same time, the Council addressed a recommendation under Article 104(7) TEC specifying that the excessive deficit had to be corrected by 2012. On 2 December 2009 the Council, following a recommendation by the Commission, considered that action had been taken in accordance with the recommendations, but unexpected adverse economic events with major unfavourable consequences for government finances had occurred after the adoption of the recommendation, and issued new recommendations to correct the deficit by 2013.

In particular, the French authorities were recommended to implement the deficit-reducing measures in 2010 as planned in the government proposal for the budget in 2010 while avoiding a further deterioration of public finances, as well as implement and strengthen the fiscal effort from 2011 onwards above the consolidation measures already planned. In order to put an end to the present excessive deficit situation, France should ensure an average fiscal consolidation of above 1% of GDP over the period 2010 – 2013, which should also contribute to bringing the government gross debt ratio back on a declining path that approaches the reference value at a satisfactory pace by restoring an adequate level of the primary surplus. Moreover, the French authorities were recommended to specify the measures that are necessary to achieve the correction of the excessive deficit by 2013, cyclical conditions permitting, and accelerate the reduction of the deficit if economic and budgetary conditions turn out better than currently expected. In addition, the French authorities should seize opportunities beyond the fiscal effort, including from better economic conditions, to accelerate the reduction of the gross debt ratio back towards the reference value. The Council established the deadline of 2 June 2010 for the French government to take effective action to implement the fiscal measures in 2010 as planned in the government proposal for the budget law for 2010 and to outline in some detail the consolidation strategy that will be necessary to progress towards the correction of the excessive deficit. The assessment of effective action will take into account economic developments compared to the economic outlook in the Commission services' autumn 2009 forecast.

The French authorities should report on progress made in the implementation of these recommendations in a separate chapter in the updates of the stability programme prepared between 2010 and 2013.

2.4. The assessment in the Council Opinion on the previous update

In its opinion of 10 March 2009, the Council summarised its assessment of the previous update of the stability programme, covering the period 2007-2012, as follows. The Council considered "that the insufficient progress when economic conditions were more favourable and the deterioration of the economic situation, especially in the last quarter of 2008, led to a deficit slightly above 3 % of GDP in 2008. In order to counteract the strong economic downturn the government adopted a recovery plan in line with the EERP which is well targeted, temporary and timely. This temporary fiscal expansion, coupled with the strong economic downturn will lead to a further widening of the government deficit in 2009. Thereafter, the programme foresees a consolidation of public finances through a restrictive stance, especially in 2010. Risks are linked, in particular, to the markedly favourable macro-economic assumptions in the programme and the current uncertain environment, but they also

reflect the non-binding character of expenditure rules. Further consolidation efforts may therefore become necessary in the outer years as the economy strengthens. The structural reforms already adopted are expected to contribute to increasing potential growth, improving competitiveness and sustaining the consolidation process". In view of the assessment, the Council invited France to "(i) implement the fiscal measures in 2009 as planned, including stimulus measures in line with the EERP and within the framework of the SGP while maintaining the objective of avoiding a further deterioration of public finances; (ii) in light of the forecast pick-up of economic activity, make a consolidation effort in 2010 and strengthen the pace of adjustment thereafter in order to ensure that the deficit is brought rapidly below the reference value, thereby setting the debt-to-GDP ratio on a declining path; (iii) effectively enforce existing expenditure rules and take further steps in order to guarantee the respect of the multi-annual expenditure reduction targets of the general government by all sub-sectors and continue to implement measures in the context of the General Review of Public Policies. Implement the structural reform programme, in particular as regards the sustainability of the pension system."

Recommendation for a

COUNCIL OPINION

on the updated stability programme of France, 2009-2013

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

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[3], 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 [22 April 2010] the Council examined the updated stability programme of France, which covers the period 2009 to 2013.

(2) Economic activity in France lost its dynamism in the course of 2008 and declined sharply in the fourth quarter and in the first quarter of 2009. From the second quarter of 2009, it picked up again, supported by stimulus measures in France and in neighbouring countries. One prominent challenge for economic policy is the situation of public finances. Specifically, since 2002 the deficit in France has been either above or close to the 3% of GDP threshold, mainly a reflection of insufficient consolidation efforts. In this context, France was under an excessive deficit procedure between 2002 and 2007, and received a policy advice from the Commission in May 2008. Following the notification of a deficit above the 3% of GDP threshold in 2008, a new excessive deficit procedure was launched in February 2009, which foresees the correction of the excessive deficit by 2013. Other challenges include addressing the supply-side weaknesses which lead to insufficient external competitiveness, as well as increasing labour utilisation.

(3) Although much of the observed decline in actual GDP in the context of the crisis is cyclical, growth in potential output will resume from a lower starting point. In addition, the crisis may also affect potential growth in the medium term through lower investment, constraints in credit availability and increasing structural unemployment. Moreover, the impact of the economic crisis will coincide with the negative effects of demographic ageing on potential output and the sustainability of public finances. Against this background it will be essential to accelerate the pace of

[3] 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/sgp/index_en.htm.

structural reforms with the aim of supporting potential growth. In particular, for France it is important to undertake reforms in the areas of the labour market and the overall competition framework.

(4) The macroeconomic scenario underlying the programme envisages that after a contraction by 2.2% in 2009 real GDP will grow again by 1.4% in 2010 before recovering to an average rate of 2.5% over the rest of the programme period. Assessed against currently available information[4], this scenario appears to be based on slightly favourable growth assumptions for 2010 and the composition of growth in the programme's projections is richer in taxes than in the Commission services' forecast. From 2011 growth assumptions are markedly favourable and ¾ pp. above potential on average from 2011 to 2013 (as recalculated by the Commission services' based on the information in the programme following the commonly agreed methodology). This translates into a rapidly closing output gap. The growth rates rely on favourable domestic demand, and notably households' consumption, throughout the programme period. The programme's projections for inflation appear realistic, as well as those for employment growth, which stays negative in 2010 before recovering, reflecting the traditional lag with activity.

(5) The programme estimates the general government deficit in 2009 at 7.9% of GDP. The significant deterioration from a deficit of 3.4% of GDP in 2008 reflects to a large extent the impact of the crisis on government finances (notably corporate tax receipts and VAT), but was also brought about by stimulus measures amounting to 1.1% of GDP which the government adopted in line with the European Economic Recovery Plan (EERP). According to the programme, fiscal policy is planned to be neutral in 2010 and is turning restrictive in the outer years with a view to correcting the excessive deficit by 2013 under the assumed favourable growth scenario. This consolidation is in line with the exit strategy advocated by the Council.

(6) The February 2010 stability programme expects the general government deficit in 2010 to further deteriorate by 0.3% of GDP and reach 8.2% of GDP in 2010. France has implemented the deficit-reducing measures in 2010 as planned in the government proposal for the budget law for 2010 while largely avoiding a further deterioration of public finances, with the exception of the decision on a public loan "to invest in the future" that will have a negative budgetary impact of around 0.1% of GDP in 2010 (and more in outer years), which appears to be broadly in line with the latest recommendations under Article 126(7) TFEU addressed to France. The deficit projection for 2010 is 0.3% of GDP better than the one in the draft budget for 2010, on account of a better deficit outcome anticipated for 2009 (0.2% of GDP) and a revision of growth projections (0.3% of GDP), partly offset by the suspension of the environmental tax by the French Constitutional Court as well as the introduction of measures stemming from the previously mentioned public loan, which would together deteriorate the deficit by around 0.2% of GDP. The latter elements changed the balance of discretionary measures from around +¼% of GDP at the time of the Council recommendation to broadly neutral in the programme. Stimulus measures in the context of the EERP of 1.1% of GDP are partially phased out and reduced to 0.4% of GDP in 2010, and there are some further consolidation measures of 0.1% of

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[4] The assessment notably takes into account the Commission services' Autumn 2009 forecast and the February 2010 interim forecast, but also other information that has become available since then.

GDP (notably the increase in taxes included in the social security budget), bringing total consolidation measures to 0.8% of GDP. However, these measures are offset by new stimulus measures included in the original budget for 2010 amounting to 0.7% of GDP, notably the reform of the local business tax (around 0.6 % of GDP) and the decrease in VAT for the catering sector (0.1% of GDP), as well as by the previously mentioned measures related to the public loan (around 0.1% of GDP). In 2010, the structural deficit, i.e. the cyclically-adjusted deficit net of one-off and other temporary measures calculated by the Commission's services on the basis of the programme figures according to the commonly agreed methodology, would deteriorate by ¼ pp. and reach 6¾% of GDP. When taking into account the transitory impact of anticipated reimbursements for firms of 0.4% of GDP in the context of the implementation of the reform of the local business tax, a one-off measure but not considered as such in the programme, the structural deficit would slightly improve by 0.1 pp in 2010 to 6½ % of GDP.

(7) The main goal of the programme's budgetary strategy is to bring the general government balance to the 3% of GDP reference value by 2013, the deadline set in the Council recommendation of 2 December 2009. The programme projects the nominal budget deficit to decrease to 6% of GDP in 2011 and to further decline to 4.6% in 2012 before it eventually reaches 3% in 2013. The primary balance is expected to follow a somewhat similar path and would reach -0.1% of GDP at the end of the programme period, from -5.5% of GDP in 2010. The structural deficit calculated according to the commonly agreed methodology would continue to improve after 2010, to reach around 5% of GDP in 2011, 4% in 2012 and 2¾% in 2013. The average annual fiscal effort would come out at 0.9% of GDP over the period 2010-2013, which is below the average effort of above 1% of GDP per year recommended by the Council. The consolidation strategy outlined in the programme would rely on measures aimed at curbing expenditure growth at all government levels, on top of the complete phasing out in 2011 of the measures in line with the EERP. The French authorities intend to further reduce the budgetary impact of existing tax exemptions by around 0.1% of GDP each year starting in 2011. Overall, the consolidation strategy is back-loaded and the measures supporting it are not yet specified but should be unveiled in the forthcoming months. The programme considers that the medium-term objective (MTO) is a balanced budget in structural terms. In view of the new methodology and given the most recent projections and debt level, the MTO[5] more than adequately reflects the objectives of the Pact. The updated stability programme does not envisage achieving the medium-term budgetary objective within the programme period.

(8) While in 2010 the deficit target appears to be rather plausible and even leaves some room for a better performance in case the environmental tax is eventually implemented in an amended form, the budgetary projections could turn out worse than projected in the programme from 2011 on. In particular, the macroeconomic scenario over 2011–2013 is markedly favourable. Specifically, the deficit projections

[5] The country-specific MTOs should take into account three components: i) the debt-stabilising balance for a debt ratio equal to the (60% of GDP) reference value (dependent on long-term potential growth), implying room for budgetary manoeuvre for Member States with relatively low debt; ii) a supplementary debt-reduction effort for Member States with a debt ratio in excess of the (60% of GDP) reference value, implying rapid progress towards it; and iii) a fraction of the adjustment needed to cover the present value of the future increase in age-related government expenditure.

are highly sensitive to growth: according to the sensitivity analysis in the programme, should GDP growth be lower by ¼ pp. over this period, the general government deficit would only fall to 4% of GDP in 2013. A cumulative loss of ¾ % of GDP would therefore translate into 2013 in a deficit increase of 1% of GDP. Additionally, the deficit targets could be negatively affected by possible expenditure slippages, as the correction of public expenditure trends at all sub-government levels compared to their past trends is not backed by sufficiently specified measures. The projected evolution of revenue is subject to rather optimistic assumptions, as the tax-to-GDP elasticity is foreseen to reach 1.2 on average from 2011 to 2013. The reduction in tax exemptions by around 0.1% of GDP each year as from 2011 is also not yet specified. Overall, and given France's track record when it comes to respecting its budgetary targets, the assessment based on the information presented in the programme suggests that there are substantial risks that the deficit outcomes for the 2011 – 2013 period may be worse than targeted in the programme.

(9) The government gross debt ratio was above the Treaty reference value in 2009 and is according to the programme on an increasing trend until 2012. Government gross debt is estimated at 77.4% of GDP in 2009, up from 67.4% in 2008. Apart from the increase in the deficit and the decline in GDP growth, a significant stock-flow adjustment, reflecting notably financial operations for the banking and the automobile sectors, contributed to the rise in the debt ratio. A further increase by a 9.2 pps. is projected over the programme period, reaching the level of about 87% of GDP, mainly driven by continued high government deficits. In view of the significant downward risks to the budgetary targets compounded by uncertainty about the stock-flow adjustment, the evolution of the debt ratio is likely to be less favourable than projected in the programme, especially after 2011.

(10) The long-term budgetary impact of ageing is clearly lower than the EU average, with pension expenditure showing a more limited increase, as a result of the pension reforms already enacted. The budgetary position in 2009, as estimated in the programme, compounds the budgetary impact of population ageing on the sustainability gap. Ensuring primary surpluses over the medium term would contribute to reducing the risks to the sustainability of public finances which were assessed in the Commission 2009 Sustainability Report[6] as medium. Medium-term debt projections that assume GDP growth rates to only gradually recover to the values projected before the crisis and tax ratios to return to pre-crisis levels show that the budgetary strategy envisaged in the programme, taken at face value, would not be enough to stabilise the debt-to-GDP ratio by 2020.

(11) Reforms have recently been introduced to further improve the overall budgetary framework. On 9 February 2009, the first multi-year public finance planning act was adopted by Parliament, setting out expenditure targets at all general government sub-sectors. It also notably lays down the principle of budgetary neutrality for the creation of new tax exemptions, whose aggregate cost must be fully offset. However,

[6] In the Council conclusions from 10 November 2009 on sustainability of public finances "the Council calls on Member States to focus attention to sustainability-oriented strategies in their upcoming stability and convergence programmes" and further "invites the Commission, together with the Economic Policy Committee and the Economic and Financial Committee, to further develop methodologies for assessing the long-term sustainability of public finances in time for the next Sustainability report", which is foreseen in 2012.

this principle is not compulsory and has not been met in 2009. The annual budgetary framework in France notably comprises expenditure norms set for general government sub-levels. A first rule, the so-called "zero volume increase expenditure rule", is set at the central government level. It has been formally adhered to in recent years. However, changes in the perimeter of the rule occurred, which helped respecting it. The national health insurance spending objective (*Objectif National des Dépenses d'Assurance Maladie*) is aimed at controlling healthcare spending; still, it has been reached only once, the year it was introduced. Finally, local authorities' expenditures are limited by a "golden rule" with a legal basis, which prevents authorities from raising debt to finance operational expenditures and by a rule stipulating that the increase of funds transferred by the central government cannot exceed the rate of inflation. However, the objectives set in the stability programmes have rarely been reached. The government intends to further reform the fiscal framework. A conference on public finances was organised on 28 January 2010 with the aim of addressing the deterioration of French public finances and on how to implement budgetary consolidation. Several working groups were set up to propose new reforms to be unveiled in April and notably aiming at further curbing the evolution of healthcare spending, or at better controlling local expenditures. A working group on balanced budget rules was also set up. The programme indicates as well that new measures aimed at reducing central government spending will be presented in April.

(12) At 52.7% in 2008, France's expenditure-to-GDP ratio is the highest in the euro area. The rise in public expenditure over the past decades has contributed to high deficits and debt levels, which have affected the long-term sustainability of French public finances. The French authorities launched in 2007 the General Review of Public Policies (*Revue Générale des Politiques Publiques*, or RGPP) with the aim of identifying ways of making government expenditure more efficient. More than 300 measures have been identified so far (with the aim to achieve savings of around 0.3% of GDP which has been rather modest compared to the global amount of public expenditure, exceeding 50% of GDP). About ¾ have been implemented and for example made possible the non-replacement of one out of two retiring civil servants in the central government sub-sector. The government announced in the budget law for 2010 that the RGPP would be extended to other central bodies and further reforms are expected to be announced in autumn. Finally, regarding the pension system, as previously mentioned, the programme refers to a reform expected in 2010. No measures have been announced yet.

(13) Overall, in 2010 the budgetary strategy set out in the programme is broadly consistent with the Council recommendations under Art. 126(7). However, from 2011 on, taking into account the risks, the budgetary strategy does not seem to be consistent with the Council Recommendation under Art. 126(7). According to the programme, the average annual fiscal effort, based on the evolution of the (recalculated) structural balance would reach only 0.9% of GDP. This is less than what was requested in the Council's recommendations under Article 126(7) ("above 1% of GDP") and is moreover subject to the risks mentioned above. The programme nevertheless anticipates the nominal budget deficit to eventually reach 3% of GDP, which is notably due to a markedly favourable macroeconomic scenario in the outer years of the programme, as well as optimistic assumptions regarding elasticity of fiscal revenue to GDP. Overall, taking into account the risks on current policies the deficit outcomes for the 2011 – 2013 period may turn out to be worse than targeted

in the programme and may have to be strengthened considerably to achieve a correction of the excessive deficit by 2013, as recommended by the Council. Using revenue from a new version of the suspended environmental tax as mentioned in the programme would help achieve somewhat better budgetary targets already from 2010. Finally, the budgetary strategy may also not be sufficient to bring debt back on a downward path.

(14) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme provides all required and most of the optional data[7]. In its recommendation under article 104/126(7) of 2 December 2009 with a view to bringing the excessive deficit situation to an end, the Council also invited France to report on progress made in the implementation on the Council's recommendations in a separate chapter in the updates of the stability programme. France complied with this recommendation.

The overall conclusion is that after a significant deterioration of public finances in 2009 triggered by the economic downturn and measures taken in the context of the EERP, the general government deficit for 2010 is expected to further increase to 8.2% of GDP. Consolidation measures and the partial phasing out of measures in line with the EERP would be compensated by further stimulus measures, including public investment stemming from a public loan. The budget balance would improve thereafter. The debt ratio is also expected to increase substantially over the programme horizon. The adjustment path presented in the programme leads to a deficit of 3% of GDP in 2013 without a safety margin and is based on a markedly favourable macroeconomic scenario from 2011 to 2013 combined with an average annual structural adjustment that is below the adjustment recommended by the Council of above 1% of GDP. It foresees consolidation measures mostly on the expenditure side, although they are not specified in the programme and are only expected to be identified in the forthcoming months. The budgetary projections are therefore subject to significant downside risks and the fiscal consolidation may need to be strengthened accordingly to ensure a correction of the excessive deficit by 2013. Ensuring higher primary surpluses over the medium term would contribute to reducing risks to the sustainability of public finances. The programme indicates that a reform of the pension system will be presented in 2010.

In view of the above assessment and also in the light of the recommendation under Article 126 TFEU of 2 December 2009, France is invited to:

(i) use, throughout the programme period, windfalls related to an improvement of the macro-economic and fiscal outlook, as well as the implementation of all envisaged tax measures to accelerate the deficit reduction and the decline of the gross debt ratio back towards the 60% of GDP reference value;

(ii) stand ready to adopt further consolidation measures, in particular for 2011 and beyond, in case risks related to the fact that the macroeconomic scenario of the programme is more favourable than the scenario underpinning the Article 126(7) Recommendation materialise, and further specify the measures necessary to ensure an average annual fiscal effort of above 1% of GDP over the period 2010 - 2013 and to achieve a correction of the excessive deficit by 2013.

[7] Assumptions on short and long-term interest rates are not provided.

Comparison of key macro economic and budgetary projection

		2008	2009	2010	2011	2012	2013
Real GDP (% change)	**SP Feb 2010**	**0.4**	**-2.25**	**1.4**	**2.5**	**2.5**	**2.5**
	COM Nov 2009	0.4	-2.2	1.2	1.5	n.a.	n.a.
	SP Dec 2008	*1.0*	*0.2-0.5*	*2.0*	*2.5*	*2.5*	*n.a.*
HICP inflation (%)	**SP Feb 2010**	**3.2**	**0.1**	**1.3**	**1.6**	**1.75**	**1.75**
	COM Nov 2009	3.2	0.1	1.1	1.4	n.a.	n.a.
	SP Dec 2008	*3.3*	*1.5*	*1¾*	*1¾*	*1¾*	*n.a.*
Output gap[1] (% of potential GDP)	**SP Feb 2010**	**0.8**	**-2.9**	**-2.9**	**-2.1**	**-1.2**	**-0.4**
	COM Nov 2009[2]	0.8	-2.5	-2.5	-2.4	n.a.	n.a.
	SP Dec 2008	*-0.6*	*-1.8*	*-1.6*	*-1.1*	*-0.4*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Feb 2010**	**-3.3**	**-2.5**	**-2.8**	**-2.8**	**-2.7**	**-2.7**
	COM Nov 2009	-3.3	-2.3	-2.3	-2.3	n.a.	n.a.
	SP Dec 2008	*-3.4*	*-2.6*	*-2.5*	*-2.4*	*-2.4*	*n.a.*
General government revenue (% of GDP)	**SP Feb 2010**	**49.3**	**47.7**	**47.6**	**48.6**	**49.1**	**49.8**
	COM Nov 2009	49.3	47.0	46.8	47.1	n.a.	n.a.
	SP Dec 2008	*49.8*	*49.6*	*50.0*	*50.0*	*50.2*	*n.a.*
General government expenditure (% of GDP)	**SP Feb 2010**	**52.7**	**55.6**	**55.8**	**54.6**	**53.7**	**52.8**
	COM Nov 2009	52.7	55.2	55.1	54.8	n.a.	n.a.
	SP Dec 2008	*52.7*	*53.5*	*52.7*	*52.0*	*51.3*	*n.a.*
General government balance (% of GDP)	**SP Feb 2010**	**-3.4**	**-7.9**	**-8.2**	**-6.0**	**-4.6**	**-3.0**
	COM Nov 2009	-3.4	-8.3	-8.2	-7.7	n.a.	n.a.
	SP Dec 2008	*-2.9*	*-3.9*	*-2.7*	*-1.9*	*-1.1*	*n.a.*
Primary balance (% of GDP)	**SP Feb 2010**	**-0.6**	**-5.4**	**-5.5**	**-3.2**	**-1.7**	**-0.1**
	COM Nov 2009	-0.6	-5.5	-5.4	-4.7	n.a.	n.a.
	SP Dec 2008	*0.0*	*-1.1*	*0.1*	*0.9*	*1.7*	*n.a.*
Cyclically-adjusted balance[1] (% of GDP)	**SP Feb 2010**	**-3.8**	**-6.5**	**-6.8**	**-4.9**	**-4.0**	**-2.8**
	COM Nov 2009	-3.8	-7.0	-7.0	-6.5	n.a.	n.a.
	SP Dec 2008	*-2.6*	*-3.0*	*-1.9*	*-1.4*	*-0.9*	*n.a.*
Structural balance[3] (% of GDP)	**SP Feb 2010**	**-3.8**	**-6.5**	**-6.8**	**-4.9**	**-4.0**	**-2.8**
	COM Nov 2009	-3.9	-7.0	-6.6	-6.5	n.a.	n.a.
	SP Dec 2008	*-2.6*	*-3*	*-1.9*	*-1.4*	*-0.9*	*n.a.*
Government gross debt (% of GDP)	**SP Feb 2010**	**67.4**	**77.4**	**83.2**	**86.1**	**87.1**	**86.6**
	COM Nov 2009	67.4	76.1	82.5	87.6	n.a.	n.a.
	SP Dec 2008	*66.7*	*69.1*	*69.4*	*68.5*	*66.8*	*n.a.*

Notes:

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

[2]Based on estimated potential growth of 1.5%, 1.2%, 1.2% and 1.4% respectively in the period 2008-2011.

[3]Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0 all over the period covered (2008-2013) according to the most recent programme and 0.1% of GDP in 2008 deficit-reducing and 0.4% of GDP in 2010 deficit-increasing according to the Commission services' November 2009 forecast.

Source:

Stability programme (SP); Commission services' autumn 2009 forecasts (COM); Commission services' calculations.