EUROPEAN COMMISSION

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Recommendation for a

COUNCIL OPINION

on the updated convergence programme of Romania, 2009-2012

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 the first convergence programme of Romania on 27 March 2007 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 convergence programme of Romania, submitted on 23 March 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 convergence 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 convergence programme).

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[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 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

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

fiscal sustainability; in addition, structural reform efforts should be strengthened to enhance productivity and to support long-term investment. The Council 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 Romania

On 7 July 2009 the Council adopted a decision stating that Romania 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 2011. On 16 February 2010 the Council, following a recommendation by the Commission, considered that effective 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 under Article 126(7) of the Treaty on the Functioning of the European Union (TFEU) to correct the deficit by 2012.

In particular, Romania was recommended to bring the general government deficit below 3% of GDP by implementing the fiscal measures as planned in its 2010 budget and continuing consolidation in 2011 and 2012. This would imply an average annual fiscal effort of 1¾% of GDP over the period 2010-2012. Romania was also asked to specify the measures necessary to correct the excessive deficit by 2012 and, if possible, accelerate the reduction of the deficit. To limit risks to the adjustment, Romania should also continue implementing the measures to improve fiscal governance agreed in the framework of the multilateral financial assistance programme, including in particular the adoption and implementation of the Fiscal Responsibility Law and the revised pension legislation. Finally, the Council established the deadline of 16 August 2010 for Romania to take effective action to implement the fiscal consolidation measures.

Romania was asked to report on progress made in the implementation of these recommendations in a separate chapter in the updates of the convergence programmes prepared between 2010 and 2012.

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

In its opinion of 7 July 2009, the Council summarised its assessment of the previous update of the convergence programme, covering the period 2008-2011, as follows. The Council considered 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 view of this assessment, the Council invited Romania 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 underpin the envisaged reductions 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 pensions 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 the 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 streamlining the public administration, improving the business environment, tackling undeclared work and by increasing the absorption and improving the use of EU funds".

Recommendation for a

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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 9(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 convergence programme of Romania, which covers the period 2009 to 2012.

(2) With an average annual GDP growth rate of 6.8% between 2004 and 2008, Romania was one of the fastest growing EU Member States. Growth was driven by a domestic demand boom for both consumption and investment, which was fuelled by a rapid financial deepening and steadily increasing income expectations. This, together with high wage inflation, caused the sharp increase in the current account deficit to 12.3% of GDP in 2008. In addition, years of pro-cyclical budgetary policies led to a sizeable deterioration in the underlying fiscal position, with the structural deficit (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) rising to 8.5% of GDP in 2008. The sudden increase in risk aversion during the financial crisis caused markets to become increasingly concerned about these imbalances. Capital inflows plunged and pressures on the exchange rate increased, resulting in a cumulative depreciation by about 30% of the leu against the euro between August 2007 and January 2009. The drop in capital inflows, the balance-sheet effects of the currency depreciation and a sharp decline in export demand caused a severe recession in late 2008 and the first half of 2009, which was reflected in a 7.1% decline of GDP in 2009. The National Bank of Romania lowered its key rate by a total 325 basis points to 7.0% between February 2009 and February 2010. The current account deficit narrowed to around 4¼% of GDP in 2009.

[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.

(3) Given the strains generated by these developments, the authorities decided to seek external financial support[4] while committing to implement a comprehensive economic policy programme aimed at addressing not only the above-mentioned external and fiscal imbalances, but also structural bottlenecks that limit competitiveness and progress in terms of real convergence. In view of the deterioration of the country's fiscal position, the Council decided on 7 July 2009 on the existence of an excessive deficit in Romania and recommended its correction by 2011. On 16 February 2010 the Council concluded that Romania had taken effective action to correct the excessive deficit and, given the sharper-then-anticipated deterioration in economic activity in 2009, extended the deadline for correction until 2012.

(4) Although much of the GDP decline associated with the economic and financial 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 structural reforms with the aim of supporting potential growth, which should also help restore the sustainability of public finances. In particular, for Romania, it is important to adopt and implement the draft pension reform as well as the fiscal governance and structural reforms foreseen in the balance-of-payments support programme. Moreover, concrete measures should be taken to accelerate the absorption of EU Structural Funds, because this would allow increasing investment in long-term growth without endangering the achievement of the agreed budget deficit targets.

(5) The macroeconomic scenario underlying the programme envisages that real GDP growth will turn positive in 2010 (1.3%) and gradually accelerate to 3.7% by 2012. Assessed against currently available information and in particular the worse-than-expected outcome for the fourth quarter of 2009, this scenario appears to be based on slightly favourable growth assumptions for 2010. The macroeconomic scenario for 2011-2012 appears to be based on plausible growth assumptions. Furthermore, external and fiscal imbalances that contributed to the severity of the recession in Romania are expected to continue to unwind. However, the programme's projections for inflation (3.7% in 2010, 3.2% in 2011 and 2.8% in 2012) appear to be on the low side given projected developments in wage and labour productivity growth, the recent recovery in international energy prices, and possible further increases in administered prices. On the other hand, inflationary pressures may be offset by a possible appreciation of the leu against the euro. The expected reduction in the unemployment rate from 8.4% in 2009 to 7.7% in 2010 appears rather optimistic at this early stage of the economic recovery.

(6) The programme estimates that the general government deficit in 2009 equalled 8.0% of GDP, which is slightly above target (7.8%) due to an increase in government payment arrears. The significant deterioration from the 5.5% of GDP deficit recorded

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[4] Against the background of increased financial stress, on 6 May 2009, the Council adopted Decision 2009/459/EC to make available to Romania a medium-term financial loan of up to EUR 5 billion under the balance of payments (BoP) facility for Member States. The EU assistance for Romania comes in conjunction with loans of the IMF (EUR 13 bn), the World Bank (EUR 1 bn) and the EIB and the EBRD (EUR 1 bn).

in 2008 reflects to a large extent the impact of the crisis on government finances. The deterioration of the deficit was mainly due to a shortfall in revenue, with the sharpest drops observed in VAT receipts and in social security contributions. Moreover, absorption of EU funds and non-tax revenue were lower than anticipated. On the expenditure side, the government made a substantial fiscal consolidation effort in 2009 to contain the increase in the deficit. Measures included a restructuring of state agencies and cuts in goods and services spending. However, the impact of these measures was lower than budgeted at the beginning of the year. As a result, additional measures, such as the obligation of workers in the public sector to take ten days of non-paid leave, had to be taken. These measures resulted in a 1% of GDP improvement in the structural balance in 2009. Given the tight budgetary constraints, the estimated budgetary impact of the stimulus measures adopted in line with the European Economic Recovery Plan (EERP) was limited, amounting to 0.2% of GDP in both 2009 and 2010. In line with the exit strategy advocated by the Council, and with a view to correcting the excessive deficit by 2012, policies aimed at fiscal consolidation are planned to continue over the coming years.

(7) The 2010 budget adopted by Parliament in January 2010 targets a deficit of 6.3% of GDP. In line with the policy conditions under the balance-of-payments support programme, the planned adjustment is mainly expenditure driven: the measures imply expenditure cuts of around 2.2% of GDP. The main expenditure cuts are: a public sector wage freeze and cuts in public sector employment which contribute to a 0.8% of GDP reduction of the public wage bill; cuts in public spending on goods and services contributing to a 0.5% of GDP reduction in intermediate consumption by the general government sector; a pension freeze, which contributes to a 0.8% of GDP reduction in social payments; and a cut in subsidies equivalent to 0.2% of GDP. The impact of these measures is partially offset by expenditure increases elsewhere yielding a net reduction in the ratio of primary expenditure to GDP by 1.3 percentage points of GDP. In particular, investment spending should increase by 0.2% of GDP, also in view of the planned increase in the use of EU structural funds. The ratio of government revenue to GDP should increase by around 0.6 percentage points of GDP, including the (one-off) proceeds from the reimbursement of tax arrears (the Rompetrol bond) worth 0.5% of GDP. The achievement of the above described net expenditure cuts and revenue increases would imply a 1.7% of GDP improvement of the general government balance in 2010 (taking into account an increase in interest payments of 0.3% of GDP over the previous year). Taking into account the widening of the output gap, this corresponds to a sizable improvement in the structural balance, by 2¼% of GDP (as recalculated by the Commission services in accordance with the commonly agreed methodology on the basis of the information provided in the programme).

(8) The main goal of the medium-term strategy in the convergence programme is to bring the deficit below the 3%-of-GDP reference value by 2012, in line with the Council Recommendation under Article 126(7) of 16 February 2010. The programme sets out a gradual path for bringing down the headline deficit from 6.3% of GDP in 2010 to 4.4% of GDP in 2011 and 3.0% of GDP in 2012. The primary balance follows a similar trend. The (recalculated) structural balance shows a front-loaded adjustment. According to the programme, the annual average fiscal effort in the years 2010-2012 would amount to around 1¾% of GDP, which is in line with the Council recommendation under the Excessive Deficit Procedure. Most of the adjustment is expenditure based, with primary expenditure being expected to gradually decline from

37.6% of GDP in 2009 to 33.3% of GDP in 2012. Government revenue is projected to increase from 31.1% of GDP in 2009 to 31.7% of GDP in 2010 and to level off thereafter. The structural consolidation measures taken to reach the 2010 budgetary target will also facilitate the achievement of the 2011 and 2012 fiscal targets. As communicated by the authorities, the medium term objective (MTO) for Romania is a structural deficit of 0.7% of GDP. In view of the new methodology[5] and given the most recent projections and debt level, the MTO reflects the objectives of the Pact. The programme does not envisage achieving the MTO over the programme period.

(9) The deficit outcome for 2010 could be worse than projected in the programme given that some of the measures aimed at reducing expenditure, such as the reduction in public employment, are socially and politically difficult to carry out. Moreover, it may be difficult to fully collect one-off proceeds from the reimbursement of the Rompetrol bond, which is assumed to bring in additional revenue worth 0.5% of GDP. However, the Romanian government has committed itself within the framework of the balance-of-payments support programme to implement additional measures in case those currently agreed upon do not yield the necessary savings to achieve the budget deficit target for this year. Similarly, it may not be easy to achieve the programme targets in the years beyond 2010, particularly in light of the potential negative impact of the election cycle on public finances. Another potential medium-term risk is the accumulation of arrears by public enterprises which if not solved can have negative consequences for the budget should the government be obliged to intervene at some stage. Finally, the programme does not specify the measures that will be taken to bring the deficit from 6.3% of GDP in 2010 to 3.0% of GDP in 2012. This information is expected to be included in the Medium-Term Budgetary Framework (MTBF) for 2011-2013, which should be adopted by May 2010.

(10) According to the convergence programme, government gross debt is estimated at 23% of GDP in 2009, up from 13.6% the year before. The main drivers of the increase in the debt-to-GDP ratio were a sharp rise in the deficit, the decline in GDP, the rise in interest payments and the valuation effect stemming from the depreciation of the exchange rate. While remaining well below the Treaty reference value, the debt ratio is projected to increase by a further 6.7 percentage points over the programme period, to 29.7% of GDP in 2012, mainly driven by high government deficits. The projected evolution of the debt ratio may be less favourable if the budgetary targets set in the programme are not achieved.

(11) The long-term budgetary impact of ageing is clearly above the EU average, mainly due to a high projected increase in pension expenditure. The budgetary position in 2009, as estimated in the programme, compounds the budgetary impact of population ageing on the sustainability gap. Reducing the primary deficit over the medium term, as foreseen in the programme, and implementing the draft pension reform agreed together with the international financial institutions in the context of the balance-of-payments assistance programme for Romania, which is aimed at curbing the

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[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.

substantial increase in age-related expenditures, would contribute to reducing the risks to the sustainability of public finances which were assessed in the Commission 2009 Sustainability Report[6] as high. Medium-term debt projections until 2020 assume that GDP growth rates and tax ratios will only gradually recover to the values projected before the crisis. This would imply that the budgetary strategy envisaged in the programme, taken at face value with no further policy change, is not sufficient to stabilise the debt ratio by 2020.

(12) Fiscal policy during the demand boom between 2004 and 2008 was highly pro-cyclical, exacerbating the private sector driven imbalances and adding to an already overheating economy. This was due to a large degree to an overall weak budgetary governance framework, resulting in weak budgetary planning and execution. Windfall revenues were typically spent through the process of intra-year budgetary rectifications and little headroom was left for more difficult times. Weak administrative capacity to plan and execute public investment projects also contributed to a recurrent under-execution of plans for capital expenditure. To improve the soundness of their fiscal framework, the Romanian authorities have committed under the EU balance-of-payments support programme to improve fiscal governance. A draft Fiscal Responsibility Law has been submitted to Parliament for approval. The draft law sets up a binding medium-term budgetary framework, establishes limits on budget revisions during the year, introduces sound fiscal rules, and creates a fiscal council which will provide independent scrutiny on public finance issues. Target dates have been set for the setting up of the fiscal council (end April) and for submitting the Medium-Term Budgetary Framework (MTBF) for 2011-2013 (end-May).

(13) An overarching priority and challenge for the Government is to improve the effectiveness and efficiency of public administration, both at the central and local level. Problem analysis, budget planning and execution as well as the enforcement of policies are improving within the context of multilateral assistance from international financial institutions. However further progress needs to be made in order to avoid a deterioration of the access to and quality of the public services as well as the business environment more generally. In order to address the specific performance challenges in individual ministries as well as the systemic problems requiring a government wide approach, a functional review of the public administration is about to start. In addition, specific measures are envisaged to improve the efficiency of tax management and to strengthen central government control over spending by local authorities and state owned enterprises. The authorities have adopted a plan to tackle undeclared work, which focuses on measures to increase the efficiency of the labour inspection. The authorities are also working on improving the effectiveness and efficiency of public R&D spending. Finally, the Government intends to take concrete measures to increase the low rate of absorption of EU Structural Funds.

(14) Overall, in 2010 the budgetary strategy set out in the programme is broadly consistent with the Council Recommendation under Article 126(7). Nevertheless, the

[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.

government deficit could turn out worse than projected in 2010 due notably to the political and social difficulty of carrying out some of the reforms envisaged. If these risks materialise, the contingency measures currently being designed by the authorities will need to be implemented. From 2011 on, taking into account the lack of specific consolidation measures in the programme, the budgetary strategy may not be fully consistent with the Council Recommendation under Article 126(7). In particular, the programme does not provide details on the additional consolidation measures to be taken in 2011 and 2012 in order to achieve the fiscal targets. Such detail should be forthcoming in the Medium-Term Budgetary Framework (MTBF) for 2011-2013 to be adopted by end May 2010. For the period 2010-2012 as a whole, the budgetary scenario in the programme implies an average annual fiscal effort of 1¾%, which would be in line with the Council Recommendation under Article 126(7), but subject to the same risks as the budget targets.

(15) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme has some gaps in the optional data[7]. Moreover, the basic assumptions underlying the programme are not presented in a separate table as suggested in the code of conduct. In its recommendations under Article 126(7) of 16 February 2010 with a view to achieve the correction of the excessive deficit by 2012, the Council also invited Romania to devote a separate chapter in the updates of the Romanian convergence programme to the implementation of the Council's recommendations. The current update of the programme includes a separate section on the application of the excessive deficit procedure in the case of Romania.

The overall conclusion is that, taken at face value, the consolidation path projected in the convergence programme is appropriate and in line with the Council Recommendation under Article 126(7) TFEU. However, full implementation of the consolidation measures foreseen for 2010 is essential to reach the deficit target. In addition, the programme does not sufficiently specify the consolidation measures to be taken in 2011 and 2012. The Romanian Government has made the commitment to take contingency measures to reach the deficit target set for 2010. Moreover, implementation of the fiscal governance reforms decided upon within the context of the EU balance of payments assistance programme to Romania should help in achieving the budgetary targets for 2011 and 2012. Finally, the adoption and implementation of the draft pension reform will be crucial in improving the long-term sustainability of public finances.

In view of the above assessment, in the light of the recommendation of 16 February 2010 under Article 126(7) TFEU and given the need to ensure sustainable convergence, Romania is invited to:

(i) rigorously implement the fiscal consolidation measures for 2010 agreed as part of the balance-of-payments support programme and take further corrective action, if needed, to achieve the 2010 target for the general government deficit. The Romanian authorities are also invited to specify, in the context of the Medium-Term Budgetary Framework to be prepared by end May 2010, the fiscal consolidation measures necessary to achieve the programme budgetary targets in 2011 and 2012;

[7] In particular, data on employment in terms of hours worked and general government expenditure by function are not provided.

(ii) improve the fiscal framework by adopting and implementing the fiscal responsibility law. In particular, take into account the analysis of the Fiscal Council in the design and conduct of fiscal policy;

(iii) adopt and implement the draft pension law which would contribute to significantly improve the long-term sustainability of public finances.

Comparison of key macroeconomic and budgetary projections

		2008	2009	2010	2011	2012
Real GDP (% change)	**CP Mar 2010**	**7.3**	**-7.0**	**1.3**	**2.4**	**3.7**
	COM Nov 2009	6.2	-8.0	0.5	2.6	n.a.
	CP Jun 2009	*7.1*	*-4.0*	*0.1*	*2.4*	*n.a.*
HICP inflation (%)	**CP Mar 2010**	**7.9**	**5.6**	**3.7**	**3.2**	**2.8**
	COM Nov 2009	7.9	5.7	3.5	3.4	n.a.
	CP Jun 2009	*7.9*	*5.8*	*3.5*	*3.2*	*n.a.*
Output gap[1] (% of potential GDP)	**CP Mar 2010**	**9.5**	**-1.7**	**-3.3**	**-3.7**	**-2.7**
	COM Nov 2009[2]	10.0	-2.2	-4.4	-4.3	n.a.
	CP Jun 2009	*8.7*	*0.5*	*-2.5*	*-2.9*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**CP Mar 2010**	**-11.2**	**-3.9**	**-3.9**	**-3.9**	**-3.7**
	COM Nov 2009	-11.8	-5.0	-5.1	-5.2	n.a.
	CP Jun 2009	*-11.9*	*-6.3*	*-5.4*	*-5.2*	*n.a.*
General government revenue (% of GDP)	**CP Mar 2010**	**32.8**	**31.1**	**31.7**	**31.9**	**31.8**
	COM Nov 2009	32.8	31.6	31.8	32.0	n.a.
	CP Jun 2009	*33.1*	*33.2*	*33.7*	*34.2*	*n.a.*
General government expenditure (% of GDP)	**CP Mar 2010**	**38.4**	**39.1**	**38.1**	**36.4**	**34.8**
	COM Nov 2009	38.4	39.4	38.6	37.9	n.a.
	CP Jun 2009	*38.5*	*38.3*	*37.8*	*37.0*	*n.a.*
General government balance (% of GDP)	**CP Mar 2010**	**-5.5**	**-8.0**	**-6.3**	**-4.4**	**-3.0**
	COM Nov 2009	-5.5	-7.8	-6.8	-5.9	n.a.
	CP Jun 2009	*-5.4*	*-5.1*	*-4.1*	*-2.9*	*n.a.*
Primary balance (% of GDP)	**CP Mar 2010**	**-4.8**	**-6.5**	**-4.5**	**-2.6**	**-1.6**
	COM Nov 2009	-4.8	-6.2	-5.0	-3.9	n.a.
	CP Jun 2009	*-4.7*	*-3.6*	*-2.4*	*-1.4*	*n.a.*
Cyclically-adjusted balance[1] (% of GDP)	**CP Mar 2010**	**-8.5**	**-7.5**	**-5.2**	**-3.2**	**-2.1**
	COM Nov 2009	-8.5	-7.1	-5.5	-4.6	n.a.
	CP Jun 2009	*-8.2*	*-5.3*	*-3.3*	*-2.0*	*n.a.*
Structural balance[3] (% of GDP)	**CP Mar 2010**	**-8.5**	**-7.5**	**-5.2**	**-3.2**	**-2.1**
	COM Nov 2009	-8.5	-7.1	-5.5	-4.6	n.a.
	CP Jun 2009	*-8.2*	*-5.3*	*-3.3*	*-2.0*	*n.a.*
Government gross debt (% of GDP)	**CP Mar 2010**	**13.6**	**23.0**	**28.3**	**29.4**	**29.7**
	COM Nov 2009	13.6	21.8	27.4	31.3	n.a.
	CP Jun 2009	*13.6*	*18.0*	*20.8*	*22.0*	*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%, 3.4%, 2.9% and 2.5% respectively in the period 2008-2011

[3] Cyclically-adjusted balance excluding one-off and other temporary measures.

Source:

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