EUROPEAN COMMISSION

Brussels, 12 May 2010
SEC(2010) 595

Recommendation for a

COUNCIL OPINION

on the updated stability programme of Cyprus, 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 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.

In accordance with the Regulation, the Council delivered an opinion on the first stability programme of Cyprus on 4 March 2008 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 Cyprus, submitted on 1 April 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 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 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.

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

Following first signs of a recovery from the crisis, particularly the halt of the sharp decline in economic activity, 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 Programme, 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) timely withdrawal of fiscal stimulus was needed, taking country-specific circumstances into account; (iii) 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) the credibility of the strategy should be underpinned by measures to enhance the quality of public finances and ambitious structural reform efforts to raise employment and potential growth.

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

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

In its opinion of 3 April 2009, the Council summarised its assessment of the previous update of the stability programme, covering the period 2008-2012, as follows. The Council considered that "fiscal stance in 2009 will be expansionary due to the adoption of significant stimulus measures in 2009 in line with the EERP. In the subsequent years, the fiscal balance is projected to continue worsening. The implied fiscal loosening does not appear justified in view of the relatively good economic prospects and the existence of a large external imbalance. Moreover, against the background of a sharp deterioration in the global economic environment, the budgetary strategy is subject to significant downside risks, with the growth assumptions underlying the macroeconomic scenario of the programme being favourable. In the light of the high external imbalances, maintaining prudent policies and strengthening fiscal sustainability should be a major priority. Therefore, controlling current expenditure and avoiding procyclicality represents a major challenge for the fiscal policy in Cyprus. In addition, fostering the quality of public finances is important also with a view to underpinning a smooth adjustment of the economy in the light of the imbalances it is faced with". In view of this assessment, the Council invited Cyprus to "(i) implement the 2009 fiscal policy as planned in line with the EERP and within the framework of the SGP, while avoiding further deterioration of public finances in 2009 compared to the target; (ii) reverse the projected increase of the fiscal deficit in 2010 and beyond, by limiting the increase in expenditures in order to ensure a sound fiscal position in the medium term; (iii) in view of the projected impact of ageing on government expenditure, strengthen the long-term sustainability of public finances by pursuing the reform of the pension and health care systems".

Recommendation for a

COUNCIL OPINION

on the updated stability programme of Cyprus, 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) (for SP) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

(1) On [DD Month 2010] the Council examined the updated stability programme of Cyprus, which covers the period 2009 to 2013.

(2) In 2009 economic activity contracted by 1.7%. This is the first time Cyprus has experienced negative growth in the last thirty-five years. Weak domestic demand and an adverse external environment weighed strongly on growth. In particular, high household indebtedness together with tight lending conditions, a worsening labour market outlook and negative confidence effects led to a decline in private consumption. In parallel, investment recorded a strong correction, amidst a fall in foreign demand for housing, low capacity utilisation and the restructuring of corporate balance sheets. Government consumption was the only demand component supporting economic activity, partly due to the 1½% of GDP stimulus package implemented in line with the EERP. In addition to these discretionary measures, the contraction of economic activity, the fading out of the asset boom and a less tax-rich growth pattern has put public finances under significant pressure. As a result, government finances turned into a deficit of 6.1% of GDP from a surplus of 0.9% of GDP in 2008. The crisis has also highlighted the accumulation of a high external imbalance, which reflects not only the low private sector net savings but also a deterioration of the net position of general government and competitiveness losses. A weak domestic demand and a sluggish external recovery are expected to weigh on recovery prospects. GDP growth is forecast to shrink further, although to a lesser extent, in 2010 and to recover mildly in 2011. Therefore, in the medium term, Cyprus is facing the challenge of enhancing growth, against the backdrop of a frail global economic recovery, while addressing the existing macroeconomic imbalances

[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.

through maintaining prudent fiscal policies. In the long term, the country is confronted with the need to strengthen the sustainability of public finances, in view of an ageing population.

(3) Although much of the observed decline in actual GDP in the context of the crisis is cyclical, the level of potential output has also been negatively affected. 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 compounds 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. In particular, for Cyprus it is important to undertake reforms in the area of the labour market, especially to strengthen lifelong learning opportunities, in particular, with regard to the low-skilled, older workers and unemployed people as well as to ensure the timely and effective implementation of the planned reforms in technical and vocational education. Moreover, there is a need to better align wage growth with productivity, employment growth and competitiveness.

(4) The macroeconomic scenario underlying the programme envisages that real GDP growth will rise from -1.7% in 2009 to 0.5% in 2010, before recovering to an average rate of about 2.6% over the rest of the programme period. Assessed against currently available information[4], this scenario appears to be based on favourable growth assumptions throughout the programme period. In particular, private consumption is expected to follow a favourable trend, driven by a somewhat optimistic employment and wage growth. The Programme projects real construction investment growth to remain negative in the short-term and to recover in the second half of the programme period. However, forward-looking indicators suggest a stronger correction path for the construction sector in the medium-term than the one projected by the programme. Moreover, despite the improving economic outlook, the fragility of recovery in Cyprus' main trading partners entails non-negligible downside risks to the macroeconomic scenario in the programme. Due to the contraction of economic activity in 2009 there was a significant, yet partial, correction of the external deficit, which nevertheless remains high, at 8.5% of GDP, and is projected in the programme to rise again sharply to 12.9% of GDP by 2013 as imports are expected to pick up. The external imbalance is likely to weigh on economic growth over the medium-term. High public sector dissavings would need to be financed by foreign debt or domestic private savings. Thus, the adjustment of the current account imbalance would require either higher cost of debt-financing or higher savings from the private sector. The latter would imply lower output growth through lower private consumption or investment (crowding-out effect). The programme's inflation projections appear realistic.

(5) According to the programme, the general government deficit deteriorated strongly in 2009, reaching a deficit of 6.1% of GDP from a surplus of 0.9% of GDP in 2008, reflecting mainly the impact of the crisis on government finances but was also brought about by stimulus measures amounting to 1½% of GDP which the

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

government adopted in line with the European Economic Recovery Plan (EERP). According to the programme, fiscal policy is planned to be restrictive with a view to correcting the excessive deficit by 2013 under the assumed growth scenario.

(6) According to the update, the budgetary target for 2010 is a deficit of 6% of GDP. The 2010 budget law (approved by the Parliament on 24 December 2009) targeted a deficit of 4.5% of GDP on the basis of an estimated outturn for the deficit in 2009 of about 3% of GDP. Given that the final outturn for 2009 was a deficit of 6% of GDP, the budget law would imply an even higher deficit. However, the programme includes measures which aim to stop further budgetary deterioration and stabilise the deficit at the same levels as in 2009. The update projects the revenue-to-GDP ratio to rise by about 1¼ percentage points in 2010 compared with the outturn of 2009. Public expenditure is expected to increase by 1¼ percentage points of GDP. Primary expenditure is planned to rise further mainly driven by a further rise in social transfers, subsidies and in the public wage bill. According to the update, interest payments are set to continue their declining trend, falling by a ¼ percentage point of GDP, despite the rising stock of debt. Public investment is planned to remain at 2009 levels. Overall, the fiscal policy stance, as measured by the structural balance (i.e. in cyclically-adjusted terms net of one-off and other temporary measures), implied by the Programme will be tightening in 2010 of an order of ½% of GDP.

(7) The main goal of the programme's medium-term budgetary strategy is to bring the general government balance below the 3% of GDP reference value by 2013. The programme projects the nominal budget deficit to decline to 4.5% of GDP in 2011 (from 6.1% in the previous year) and 3.4% in 2012 before it eventually reaches 2.5% in 2013. The primary balance is expected to follow a similar pattern and reach a balanced position by the end of the period, from a deficit of 3.7% of GDP in 2010. The structural deficit, calculated according to the commonly agreed methodology, would continue to improve after 2010, to reach around 3½% of GDP in 2011, just below 3% in 2012 and 2¼% in 2013. The annual fiscal effort would average at 3/4% of GDP per year over the period 2010-2013. The adjustment appears front-loaded, although measures taken in 2010 will have their full effect only in 2011. Moreover, measures taken within the context of the EERP will only be phased out by the end of 2010. Consolidation is planned to be achieved mainly from the revenue side of the budget, which is projected to increase by 2.6 pp. of GDP between 2010 and 2013, while expenditure retrenchment would contribute an additional percentage point of GDP. Revenue supporting measures include the fight against tax evasion, a town planning amnesty, harmonisation of the minimum excise duties on petroleum products and application of the reduced VAT on foodstuff and pharmaceutical products as well as dividend income from semi-governmental organisations. As regards expenditure measures, the bulk of the programme's adjustment comes from controlling operational expenditure and reducing current transfers. The programme lists the targeting of social transfers and the containment of size and the rate of growth of public wage bill as expenditure categories for consolidation when consensus would be reached among social partners. The update confirms the commitment to the country-specific medium-term budgetary objective (MTO), which is a balanced budgetary position in structural terms (i.e. in cyclically-adjusted terms net of one-off and other temporary measures). The MTO adequately reflects the objectives of the Pact. The structural balances corresponding to the programme’s deficit targets imply that the MTO will not be reached within the programme period.

(8) The budgetary outcomes could be worse than targeted in the programme. In particular, the macroeconomic scenario projected in the update appears to be based on favourable growth assumptions throughout the programme period. On the revenue side, risks for public finances, particularly in 2010-2011, are higher than in previous years and are associated with a possible sharper contraction and rebalancing of economic growth towards a less-tax rich composition of growth. In view of the expected moderate economic recovery and the pressure to stimulate domestic demand through increased public expenditure, the risks of potential overruns are non negligible. These risks are mainly associated to the practise of submitting expenditure-increasing supplementary budgets during the course of the year which, beyond the intended reallocation of funds, has implied an increase in current expenditure. Moreover, social transfers might turn higher than expected in view of the recent past track record and the absence of a targeting mechanism at place as well as of the somewhat optimistic employment (thus unemployment) growth projections.

(9) The government gross debt-to-GDP ratio is estimated at 56.2% of GDP in 2009, up from 48.4% in the year before. Apart from the increase in the deficit and the decline in GDP growth, a stock-flow adjustment accounting for 1 percentage point of GDP contributed to the rise in the debt ratio. The latter reflects an accumulation of government assets, due to over-financing at the end of 2009 in order to meet obligations arising early in January of 2010. The debt ratio is projected to increase over the programme period, mainly driven by continued although declining primary deficits. The debt ratio will breach the reference value of 60% of GDP in 2010 and is projected to remain above the reference value throughout the programme period. It is projected to increase to around 63% of GDP in 2011 and 2012, thereafter slightly declining. In view of the downward risks to the macroeconomic scenario and the budgetary targets, the evolution of the debt ratio may be less favourable than projected in the programme.

(10) The long-term budgetary impact of ageing is significantly 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 partly due to the fact that the pension scheme is still in a maturing phase. The programme discusses a pension reform introduced in April 2009 that is projected to slightly reduce the increase in pension expenditure and, more significantly, increase the social security contribution rates. The reform would improve the long-term balance of the pension system and reduce risks to sustainability, however without having an effect on the overall assessment. The budgetary position in 2009 as estimated in the programme compounds the budgetary impact of population ageing on the sustainability gap. Improving the primary balance over the medium term and implementing further measures aimed at curbing the substantial increase in age-related expenditure, especially pension and healthcare expenditure, would contribute to reducing the risks to the sustainability of public finances, which were assessed in the Commission 2009 Sustainability Report[5] as high. Medium-term debt projections that assume GDP growth rates to gradually

---

[5] 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.

recover to the values projected before the crisis, tax ratios to return to pre-crisis levels, and include the projected increase in age-related expenditure show that the budgetary strategy envisaged in the programme, taken at face value and with no further policy change, would almost be enough to stabilise the debt-to-GDP ratio by 2020.

(11) In recent years, Cyprus has over-achieved its budgetary targets, albeit in a context of buoyant economic activity and tax-rich composition of growth. In the recent past, the budgetary framework has been improved by the adoption of the Financial Management Accounting System (FIMAS), the gradual introduction of a three-year medium-term budgetary framework (MTBF) and of Programme and Performance Budgeting (PPB). However, the practice of adopting supplementary budgets during the course of the year has implied an increase in current expenditure beyond the intended reallocation of funds. According to the Programme, the new budgeting framework is expected to cease this practice when fully implemented and lead to a more effective and efficient budgeting process, contributing to containing expenditure. At the same time, the new budgeting process would set a sound basis for reallocating expenditure in favour of growth-enhancing activities consistent with the priorities set by the National Reform Programme. However, the new framework is still at an early stage of implementation and is only foreseen to be fully in place in 2012. Therefore, its impact could become effective only in the medium-term. The new framework's timely implementation would be critical for a successful and lasting consolidation of the public finances.

(12) As regards the quality of public finances, the programme acknowledges its importance as a means to support potential growth and to ensure the long-term sustainability of public finances. In particular, the programme notes the impact the MTBF and PPB budgeting will have upon full implementation on the better allocation of resources to high-priority, growth enhancing areas in tandem with better control of non-productive expenditure. On the expenditure side, the programme includes a review of recent projects aimed at enhancing infrastructure, through Private Public Partnerships (PPP), as well as measures to improve education, through the increased use of computers in primary and secondary education and improvements in research and academic institutions. The update also includes the allocation of funds to restructure public hospitals into autonomous units and the adoption of a National Health Scheme, with the aim of improving effectiveness via regulated competition and cost containment. This seems essential as a means to control the anticipated expenditure increases associated to an ageing population. On the revenue side, the programme emphasizes the positive impact the introduction of the MTBF would have on improving the accuracy and sensitivity of revenue forecasts over the medium-term. The authorities note that given the volatility of tax elasticities in recent years due to the asset boom, revenue projections were adapted to take into account the impact of asset prices and the composition of GDP growth. The programme also notes the constant monitoring of the tax-benefit system by the authorities in order to endure that work pays while ensuring the support to vulnerable social groups.

(13) Overall, taking into account the risks to the budgetary targets mentioned above, the strategy to maintain supportive fiscal policies also in 2010 can be considered in line with the EERP. However, following the negative effects of the economic crisis, the general government deficit is to remain at 6% of GDP in 2010, gradually abating

below the 3% reference value thereafter. While the programme's strategy foresees an average annual fiscal effort of ¾ percentage points of GDP over the period 2010-2013, this is subject to downside risks. Therefore, in view of the risks, the fiscal effort may not be sufficient to bring the deficit below the 3% of GDP reference value by 2013 as planned. Moreover, the composition of the consolidation strategy of the programme appears to be based largely on revenue-increasing measures with expenditure retrenchment being minimal. In fact, the programme projects the expenditure-to-GDP ratio to stabilise at a higher level in 2013 than the 2009 outturn. Measures that could reverse this situation are still under discussion with the social partners and, thus, subject to risks regarding the modalities and the timing of their implementation. As a result, the evolution of the debt ratio, which is planned to exceed 60% of GDP from 2010 onward, may also be less favourable than projected in the update.

(14) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme provides all required and optional data.

The overall conclusion is that Cyprus' public finances deteriorated significantly as a result of the economic downturn and an expansionary fiscal stance due to the adoption of significant stimulus measures in line with the EERP. As a result, the budgetary balance turned to a deficit of 6.1% of GDP in 2009 from a surplus of 0.9% of GDP in 2008. The programme outlines a consolidation path starting in 2010 which aims to bring the general government balance below the 3% of GDP reference value by 2013. However, the adjustment is planned to be achieved mainly from the revenue side of the budget while the expenditure-to-GDP ratio remains at historically high levels. Moreover, against the background of a frail global economic recovery, the budgetary strategy is subject to significant downside risks, as the growth assumptions underlying the macroeconomic scenario of the programme are favourable. In the light of the high domestic and external imbalances, maintaining prudent policies and strengthening fiscal sustainability should be a priority. Therefore, controlling current expenditure through the implementation of an effective multi-annual budgetary framework would be an essential instrument to support the achievement of the consolidation plans and budgetary targets. In addition, fostering the quality of public finances is important also with a view to underpinning a smooth adjustment of the economy in the light of the imbalances it is faced with, notably by lifting potential GDP, enhancing competitiveness and further narrowing the external imbalance.

In view of the above assessment, Cyprus is invited to:

(i) limit the 2010 deficit to at most 6% of GDP, if necessary by reinforcing the consolidation measures, notably in case macroeconomic developments proves less favourable than the programme scenario, and take timely action to define a more expenditure-driven consolidation strategy; seize opportunities beyond the announced fiscal effort to accelerate fiscal consolidation and the reduction of the gross debt ratio back below the reference value;

(ii) implement, as envisaged, an effective multi-annual budgetary framework in order to ensure the adherence to the budgetary targets and to firmly contain expenditure over the medium-term;

(iii) improve the long-term sustainability of public finances by implementing reform measures to control pension and health care expenditure in order to curb the projected increase in age-related expenditure.

Comparison of key macroeconomic and budgetary projections

		2008	2009	2010	2011	2012	2013
Real GDP (% change)	**SP Apr 2010**	**3.6**	**-1.7**	**0.5**	**1.5**	**3.0**	**3.2**
	COM May 2010	3.6	-1.7	-0.4	1.3	n.a.	n.a.
	SP Feb 2009	*3.8*	*2.1*	*2.4*	*3.0*	*3.2*	*n.a.*
HICP inflation (%)	**SP Apr 2010**	**4.4**	**0.2**	**2.7**	**2.0**	**2.0**	**2.0**
	COM May 2010	4.4	0.2	2.7	2.5	n.a.	n.a.
	SP Feb 2009	*4.4*	*2.0*	*2.5*	*2.5*	*2.5*	*n.a.*
Output gap[1] (% of potential GDP)	**SP Apr 2010**	**2.9**	**-1.3**	**-2.4**	**-2.5**	**-1.6**	**-0.5**
	COM May 2010	3.4	-0.7	-2.1	-1.6	n.a.	n.a.
	SP Feb 2009	*0.8*	*-0.1*	*-0.6*	*-0.5*	*-0.2*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Apr 2010**	**-17.7**	**-8.5**	**-11.5**	**-12.2**	**-12.6**	**-12.9**
	COM May 2010	-17.6	-8.2	-6.8	-6.7	n.a.	n.a.
	SP Feb 2009	*-12.4*	*-12.1*	*-11.5*	*-10.9*	*-10.2*	*n.a.*
General government revenue (% of GDP)	**SP Apr 2010**	**43.5**	**40.3**	**41.6**	**42.8**	**43.6**	**44.2**
	COM May 2010	43.5	40.3	41.2	41.3	n.a.	n.a.
	SP Feb 2009	*45.3*	*43.8*	*44.0*	*44.4*	*44.8*	*n.a.*
General government expenditure (% of GDP)	**SP Apr 2010**	**42.6**	**46.4**	**47.6**	**47.2**	**47.0**	**46.7**
	COM May 2010	42.6	46.4	48.3	49.0	n.a.	n.a.
	SP Feb 2009	*44.3*	*44.6*	*45.5*	*46.3*	*47.1*	*n.a.*
General government balance (% of GDP)	**SP Apr 2010**	**0.9**	**-6.1**	**-6.0**	**-4.5**	**-3.4**	**-2.5**
	COM May 2010	0.9	-6.1	-7.1	-7.7	n.a.	n.a.
	SP Feb 2009	*1.0*	*-0.8*	*-1.4*	*-1.9*	*-2.2*	*n.a.*
Primary balance (% of GDP)	**SP Apr 2010**	**3.7**	**-3.6**	**-3.7**	**-2.1**	**-1.0**	**0.1**
	COM May 2010	3.7	-3.6	-4.4	-4.8	n.a.	n.a.
	SP Feb 2009	*3.9*	*1.5*	*0.8*	*0.2*	*-0.2*	*n.a.*
Cyclically-adjusted balance[1] (% of GDP)	**SP Apr 2010**	**-0.2**	**-5.6**	**-5.1**	**-3.5**	**-2.8**	**-2.3**
	COM May 2010	-0.4	-5.8	-6.3	-7.1	n.a.	n.a.
	SP Feb 2009	*0.7*	*-0.8*	*-1.2*	*-1.7*	*-2.1*	*n.a.*
Structural balance[3] (% of GDP)	**SP Apr 2010**	**-0.2**	**-5.6**	**-5.2**	**-3.6**	**-2.9**	**-2.3**
	COM May 2010	-0.4	-5.8	-6.3	-7.1	n.a.	n.a.
	SP Feb 2009	*0.7*	*-0.8*	*-1.2*	*-1.7*	*-2.1*	*n.a.*
Government gross debt (% of GDP)	**SP Apr 2010**	**48.4**	**56.2**	**61.0**	**63.2**	**63.1**	**62.3**
	COM May 2010	48.4	56.2	62.3	67.6	n.a.	n.a.
	SP Feb 2009	*49.3*	*46.8*	*45.4*	*44.2*	*44.2*	*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 2.0%, 2.8%, 2.8%, 2.8% and 2.8% respectively in the period 2009-2013.

[3]Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0.1% in years 2010, 2011 and 2012(all deficit reducing) according to the most recent programme. There are no one-off and other temporary measures in the Commission services' spring 2010 forecast.

Source:

Stability programme (SP); Commission services' spring 2010 forecasts (COM); Commission services' calculations.