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Assessment of the action taken by Latvia and Hungary in response to the Council Recommendations of 7 July 2009 with a view to bringing an end to the situation of excessive government deficit

1. THE APPLICATION OF THE STABILITY AND GROWTH PACT IN THE CURRENT CRISIS SITUATION

Many EU countries are presently facing general government deficits above the 3% of GDP reference value set in the Treaty on the Functioning of the European Union (TFEU). The often strong deterioration in the deficit as well as the debt positions must be seen in the context of the unprecedented global financial crisis and economic downturn in 2008/09. Several factors are at play. First, the economic downturn brings about declining tax revenue and rising social benefit expenditure (e.g. unemployment benefits). Second, recognising that budgetary policies have an important role to play in the current extraordinary economic situation, the Commission called for a fiscal stimulus in its November 2008 European Economic Recovery Plan (EERP), endorsed by the European Council in December. The Plan explicated that the stimulus should be differentiated across Member States to reflect their different positions in terms of public finance sustainability and competitiveness. In the case of Latvia and Hungary, there was no room for such fiscal stimulus. Finally, several countries have taken measures to stabilise the financial sector, some of which have impacted on the debt position or constitute a risk of higher deficits and debt in the future, although some of the costs of the government support could be recouped in the future.

The Stability and Growth Pact requires the Commission to initiate the excessive deficit procedure (EDP) whenever the deficit of a Member State exceeds the 3% of GDP reference value. The amendments to the Stability and Growth Pact in 2005 aimed at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation, and thereby ensuring long-term sustainability of public finances.

2. ASSESSING EFFECTIVE ACTION TAKEN

On 7 July, the Council addressed recommendations under Article 104(7) of the Treaty establishing the European Community (TEC) to Latvia and Hungary with a view to bringing the situation of an excessive deficit to an end. For Latvia, these recommendations were based on a Commission services' update of the 2009 spring forecast, specifically prepared in the follow-up of the review of the multilateral Balance of Payment assistance provided to Latvia in June 2009. For Hungary, the recommendations were based on the economic outlook presented in the Commission services' 2009 spring forecast.

According to Regulation (EC) No 1467/97[1] and the revised Code of Conduct[2] a Member State should be considered to have taken effective action if it has acted in compliance with the Article 104(7) TEC recommendation. The Code of Conduct states that the assessment of effective action should in particular take into account whether the Member State concerned has achieved the annual improvement of its cyclically adjusted balance, net of one-off and other temporary measures, initially recommended by the Council. In case the observed

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1 OJ L 209, 2.8.1997, p. 6.

2 "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 10 November 2009, available at: http://ec.europa.eu/economy_finance/sgp/deficit/legal_texts/index_en.htm

adjustment proves to be lower than recommended, a careful analysis of the reasons for the shortfall should be made. In case of a multi-annual adjustment, the Code of Conduct specifies that the assessment should mainly focus on the measures taken in order to ensure an adequate fiscal adjustment in the year following the identification of the excessive deficit.

In the following country-specific sections, the actions taken by Latvia and Hungary in response to the Council recommendations are assessed.

3. LATVIA

3.1. Excessive deficit procedure and most recent recommendations

On 7 July 2009, the Council decided that an excessive deficit existed in Latvia in accordance with Article 104(6) TEC, and addressed recommendations to Latvia in accordance with Article 104(7) TEC with a view to bringing an end to the situation of an excessive government deficit. In its recommendations, the Council established a deadline of 7 January 2010 for effective action to be taken.

The Council recommended that Latvia put an end to the excessive deficit situation as rapidly as possible and at the latest by 2012, by ensuring an average annual fiscal effort of at least 2¾% of GDP over the period 2010-2012, by strengthening fiscal governance and transparency (improvement of the budgetary framework, reinforcement of the Ministry of Finance's spending controls), as well as financial market regulation and supervision. The Council established a deadline of 7 January 2010 for the Latvian government to take effective action to implement the measures associated with the 16 June 2009 supplementary budget, to adopt a fully articulated 2010 budget with high-quality consolidation measures consistent with the envisaged path for the correction of the excessive deficit, and to broadly outline the measures envisaged for 2011 and 2012.

Latvia is receiving medium-term financial assistance from the EU in the form of a loan of up to EUR 3.1 billion, decided on 20 January 2009. This assistance - provided in conjunction with a IMF Stand-by agreement[3] - is subject to a number of policy conditions including on continued and enhanced fiscal consolidation, fiscal governance and structural reforms. They are consistent with the Council recommendations under the EDP.

3.2. Assessment of effective action

The June 2009 supplementary budget has been implemented broadly as planned. According to the Commission services' autumn 2009 forecast, the general government deficit in ESA 95 terms was expected to reach 9.0% of GDP in 2009 (compared to 10.0% of GDP reported by the Latvian authorities in their October 2009 EDP notification). Given a broadly unchanged macroeconomic context compared to the Commission forecast underlying the July 2009 Council's recommendations, revenues developed in line with expectations (turning out only slightly lower, possibly due to compliance issues). The positive cash developments reflect a better-than-expected outturn on the expenditure side, and have been achieved in spite of

[3] The international assistance package of a total of EUR 7.5 billion includes contributions from the IMF worth EUR 1.7 billion, from Nordic countries worth EUR 1.9 billion, a World Bank loan of EUR 0.4 billion, and other instalments from the European Bank of Reconstruction and Development, the Czech Republic and Poland totalling another EUR 0.4 billion.

expenditure increases of about 1% of GDP, decided in October-December 2009 with EC and IMF consent, in order to accelerate the absorption of EU funds, and of additional financing provided for social needs (emergency employment programme, increase of the general minimum income, patient co-payments, housing and heating benefits). Overall, the significant expenditure cuts contained in the 2009 supplementary budget (4.1% of GDP) have been implemented, the only notable exception being pension cuts which will have to be reversed following a recent ruling of the Constitutional Court (21 December 2009). In its ruling, the Constitutional Court stated that pension cuts introduced with the June 2009 supplementary budget had been made in a manner inconsistent with the Latvian constitution and have to be repaid. In this context, a higher 2009 deficit is to be expected on an ESA basis by around 0.5% of GDP (while the cash repayments are expected to be made in the first half of 2010). All in all, taking into account currently available information, the 2009 general government deficit is forecast to be close but below 10% of GDP, hence complying with the Council's recommendations under Article 104(7) TEC.

The 2010 budget was adopted by Parliament on 1 December 2009. It is based on sustainable fiscal measures and entails a further discretionary improvement in the budget balance by LVL 500 million (over 4.2% of GDP), which should be sufficient to respect the 8.5% of GDP deficit target set for 2010, despite the unexpected fiscal costs resulting from the Constitutional Court ruling on pensions, amounting for 2010 to around 1% of GDP. The adopted 2010 budget is in line with the Council's recommendations under Article 104(7) TEC[4].

On the revenue side, the 2010 budget includes revenue raising measures amounting to around LVL 275 million (2.3% of GDP). Among the measures, there are important reforms that make the personal income tax and social security contributions more neutral, by broadening the tax base to capital income (capital gains, dividends, and interest), removing special exemptions in tourism and agricultural activities, taxing fringe benefits-in-kind and gifts (excluding intra-family gifts), and increasing the self-employed tax rate to the same level as for employees. These measures amount to almost LVL 100 million. Another key new measure is the increase of the personal income tax rate from 23% to 26%, which should raise more than LVL 90 million. Taxation of wealth has been strengthened, notably through real estate taxes which have been increased and broadened, to include a (very mildly) progressive residential property tax. The broadening of the tax base to residential buildings raises only LVL 8 million, but other measures in the budget bring nevertheless the overall additional amount from real estate tax to LVL 30 million, notably an increase from 1% to 1.5% of the rate applying to land and business real estate, a broadening of the tax base to private-owned civil engineering structures and an increase of the rate to 3% for uncultivated agricultural lands. In addition, the government has introduced further progressive car taxation measures (based on the stock of cars) that should raise almost LVL 20 million. Other revenue measures consist of additional excise taxes on gas and tobacco, worth around LVL 12 million, and additional non-tax revenues worth almost LVL 20 million.

On the expenditure side, the 2010 budget includes significant expenditure cuts based to a large extent on structural reforms, notably the merger or abolition of agencies and institutions in the Ministries of Agriculture, Culture, Education, and Defence. These measures will bring savings in 2010 and in the longer term. Some other measures, with impact mainly on the short term have been taken in the welfare budget. To improve the sustainability of the latter, during

4 The calculation of the structural balance is associated with considerable uncertainties especially for new Member States.

2010 a review of social insurance benefits and pension systems will be undertaken and proposals for these systems' medium-term reform will be adopted. This is all the more necessary after the recent Constitutional Court ruling. Local governments still have to secure in their 2010 wage bill a reduction consistent with the projected savings. These seem realistic given that wage cuts at the local level only began with the adoption of the corresponding supplementary budgets in October 2009. In this context, the unified public wage grid will be extended to local governments.

Concerning the implementation of the 2010 budget, the authorities will take measures to increase the efficiency of the State Revenue Service (which received additional funding in the 2010 budget) and to combat the grey economy. Such measures and the monitoring of tax compliance will be important in ensuring that revenues develop in line with, or possible better than projected.

Given the extent of the adjustment undertaken by Latvia in 2009 and the adjustment in the 2010 budget, it can be reasonably concluded that the structural effort has been restrictive, in line with the Council's July 2009 recommendations. The fact that the Commission services' forecasts do not show a structural budgetary improvement in 2009 and 2010 is explained by several factors. In the first place, concerning 2010, the Commission services' autumn 2009 forecasts excluded the 2010 budget which was still under discussion at the time the forecasts were published. Moreover, and more generally, the exceptionally volatile economic environment between 2008 and 2011 implies that the usual cyclical component of the deficit, using standard elasticities, may not sufficiently capture the impact of the extreme downturn experienced by Latvia in 2009. Hence the assessment of structural effort relies on more qualitative aspects, building on the analysis of the June 2009 supplementary and 2010 budgets.After 19.5% of GDP in 2008, general government gross debt is on a rapidly growing trend, reaching 33% of GDP in 2009 and 49% of GDP in 2010 according to the Commission services' autumn forecast (assuming full take-up of the international financial assistance being extended to Latvia during the period up to 2011).

As indicated in the Council’s recommendations, a significant adjustment is needed in the coming years. Several measures expected to be taken in 2011 and 2012 budgets have been outlined by the Latvian authorities in the context of the stabilisation programme within the balance of payment assistance. They include further measures on the revenue side, focusing on the taxation of wealth (a car tax reform based on environmental and wealth considerations and a comprehensive reform of real estate taxation allowing means-tested exemptions). On the expenditure side, the Latvian authorities are expected to carry out a broad review of social insurance benefits and pension systems, as mentioned above. As regards pensions, the various regimes and retirement ages will be reviewed, the goal being to preserve future sustainability and adequacy of the three pillars of the system. A review of all public companies and their subsidiaries will also be carried out against the criteria set in the Latvian State Administration Law, with a view to a possible restructuring.

The 2010 budget preparation process showed that there has been some progress in strengthening the power and analytical capacities of the Finance Ministry vis-à-vis other line ministries. Further progress in strengthening the budgetary framework is expected in 2010, through the adoption of measures related in particular to budgetary planning and monitoring.

Financial sector supervision has been satisfactorily strengthened through increased credit risk analyses and close monitoring of banks' foreign currency exposure. Steps have been taken to ensure that banks are adequately capitalized and that losses are adequately provisioned.

3.3. Conclusions

On current information it appears that Latvia has taken action representing adequate progress towards the correction of the excessive deficit within the time limits set by the Council. In particular, Latvia:

- has implemented the 2009 budget tightly, which allowed to cushion the impact of complying with the December 2009 Constitutional Court ruling concerning pensions; the 2009 deficit is therefore still expected to be in line with the 10% of GDP target set in the Council's recommendations and also in compliance with the commitments undertaken under the balance of payments programme;

- has adopted the 2010 budget on 1 December 2009, entailing a fiscal consolidation by LVL 500 million (over 4.2% of GDP) in line with the Council's recommendations and also in compliance with the commitments undertaken under the balance of payments programme. The measures in the budget, even taking into account the impact on 2010 of compliance with the Court ruling, should allow Latvia to comply with the recommendation to achieve a deficit of no more than 8.5% of GDP. While including some one-off measures, the budget implies a significant structural adjustment well above 2¾ pp of GDP (the average annual fiscal effort over the period 2010-12 recommended);

- the preparatory phase of the 2010 budget shows signs of improvement in the area of fiscal governance, and significant steps have been taken regarding the strengthening of financial markets regulation and supervision.

Risks to the budgetary targets relate to the implementation of the expenditure cuts at local level, notably as concerns a reduction in the wage bill consistent with the projected savings in the fiscal consolidation package. On the revenue side, the monitoring of tax compliance and measures to combat the grey economy will be important in ensuring that revenues develop in line with, or possible better than projections.

A significant adjustment is needed in the coming years in order to bring the deficit below 3% of GDP in 2012. Several measures expected to be taken in the 2011 and 2012 budgets have been outlined by the Latvian authorities in the context of the stabilisation programme undertaken as a condition of balance of payment assistance.

In view of the above assessment, the Commission considers that no further steps in the excessive deficit procedure of Latvia are needed at present. The Commission will continue to closely monitor budgetary developments in Latvia in accordance with the Treaty and the SGP, and the criteria set out in the context of the Balance of Payment assistance, in particular in the light of the fragile situation of public finances.

Comparison of key macroeconomic and budgetary projections

		2007	2008	2009	2010	2011
Real GDP (% change)	COM autumn 2009 forecast	**10.0**	**-4.6**	**-18.0**	**-4.0**	2.0
	National forecast	10.0	-4.6	-18.0	-4.0	n.a.
Output gap[1] (% of potential GDP)	COM autumn 2009 forecast	**16.3**	**9.2**	**-9.1**	**-10.7**	-7.0
	National forecast	n.a.	n.a.	n.a.	n.a.	n.a.
General government balance (% of GDP)	COM autumn 2009 forecast	**-0.3**	**-4.1**	**-9.0**	**-12.3**	-12.2
	National forecast	-0.3	-4.1	-10.0	-5.4	n.a.
Primary balance (% of GDP)	COM autumn 2009 forecast	**0.1**	**-3.4**	**-7.6**	**-9.9**	-8.3
	National forecast	0.1	-3.4	-8.6	-3.2	n.a.
Cyclically-adjusted balance (% of GDP)	COM autumn 2009 forecast	**-4.8**	**-6.7**	**-6.4**	**-9.3**	-10.2
	National forecast	n.a.	n.a.	n.a.	n.a.	n.a.
Structural balance[2] (% of GDP)	COM autumn 2009 forecast	**-4.8**	**-6.7**	**-7.0**	**-10.2**	-10.2
	National forecast	n.a.	n.a.	n.a.	n.a.	n.a.
Government gross debt (% of GDP)	COM autumn 2009 forecast	**9.0**	**19.5**	**33.2**	**48.6**	60.4
	National forecast	9.0	19.5	41.5	n.a.	n.a.

Source: Latvian Ministry of Finance, Second Notification under the EDP 2009, Commission services' 2009 autumn forecast

[1] The figures of the Commission services' 2009 autumn forecast are based on estimated potential growth of 4.5%, 1.6%, -1.4%, -2.3% and -2.1% respectively in the period 2007-2011.

[2] Structural balance = cyclically adjusted balance excluding one-off and other temporary measures.

<u>Notes to the table</u>:

The Commission services' autumn forecasts for Latvia exclude the fiscal impact of the 2010 budget which was then still under discussion.

National forecasts for real GDP were communicated by the Latvian authorities in January 2010; national budgetary forecasts for 2009 are those of the autumn 2009 EDP notification; national budgetary forecasts for 2010 include the impact of the budget adopted on 1 December, but not the consequences of the 21 December Constitutional Court ruling on pension cuts mentioned above; moreover, the national budgetary forecasts for 2010 are only available in cash terms and not fully comparable with other forecasts which are on an ESA basis.

The most recent national forecast of output gaps and corresponding balances are those from the January 2009 convergence programme and are here omitted as being no longer relevant.

Although the table does not show a structural budgetary improvement - given that Commission services'' forecasts exclude the 2010 budget and new national forecasts of the structural balance are lacking - the preceding analysis of the June 2009 supplementary and 2010 budgets shows that action taken is in line with the Council's July 2009 recommendations in that regard. Moreover, due to the exceptionally volatile economic environment between 2008 and 2011, the usual cyclical component of the deficit, using standard elasticities, may not sufficiently capture the impact of the downturn.

4. HUNGARY

4.1. Excessive deficit procedure and recommendations

On 5 July 2004 the Council decided that an excessive deficit existed in Hungary in accordance with Article 104(6) TEC. The most recent Council Recommendation under Article 104(7) TEC was adopted on 7 July 2009, establishing a deadline for taking effective action by 7 January 2010.

The Council recommended to Hungary to put an end to the existing excessive deficit as rapidly as possible and by 2011 at the latest. In particular, deficits in 2009 and 2010 should respect the limits of 3.9% of GDP and 3.8% of GDP, respectively, as also foreseen in the authorities' EDP progress report of 29 May 2009, and the Council established a deadline to take effective action in this respect. Furthermore, budgetary measures should ensure an improvement in the structural balance of at least a cumulative 0.5 percentage points over the two years of 2010 and 2011 taken together. The recently adopted fiscal responsibility law should be fully implemented. Finally, the government debt to GDP ratio should be brought onto a firm downward trajectory, if possible before 2011.

4.2. Assessment of effective action

The following analysis takes into account the sixth progress report under the excessive deficit procedure submitted by the Hungarian authorities on 24 September 2009[5], as well as additional information that has become available since then, including on the adoption of additional measures and the publication of budgetary data.

The fiscal stance in 2009 and, albeit to a lesser extent, in 2010 continued to be restrictive. Hungary did not have any room for budgetary stimulus measures and when the crisis reached its first peak by end-October 2008, the government even lost access to market-based financing. In this context, it received medium-term financial assistance from the EU in the form of a loan of up to EUR 6.5 billion decided on 4 November 2008. This assistance is subject to a number of policy conditions including on continued and enhanced fiscal consolidation, fiscal governance and structural reforms and provided in conjunction with EUR 12.5 billion provided under an IMF Stand-by agreement[6]. They are consistent with the Council recommendations under the EDP.

Regarding 2009, the Commission services’ autumn forecast foresaw a general government deficit of 4.1% of GDP (based on all available information up to 22 October 2009, the cut-off date of the forecast). The target of 3.9% of GDP is now likely to have been met, based on information on the outcome of the general government 2009 cash deficit excluding municipalities (3.6% of GDP against a plan of 3.8% of GDP). Altogether, including measures adopted before the May progress report, fiscal consolidation measures worth 1½% of GDP were adopted in 2009 compared to the original budget. The impact was mainly on the expenditure side (in particular, cuts in public wages, pensions, and housing subsidies) and to a limited extent (0.2% of GDP) also on the revenue side. Progress towards meeting the 2009

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5 The report has been registered as a document of the Council of the European Union 14226/09 (ECOFIN 616, UEM 233), Brussels, 8 October 2009.

6 The international assistance package of a total of EUR 20 billion was subsequently completed by a World Bank loan of EUR 1 billion.

deficit target was further supported by inter alia higher dividend payments by state-owned companies, enhanced expenditure control on line ministries as well as by lower-than-expected net interest expenditure of around 0.2% of GDP, bringing the total savings to nearly 2% of GDP. This offset the sharp deterioration of government revenues, linked to the massive contraction of economic activity. In structural terms, the improvement in the general government balance in 2009 is estimated to be close to 3% of GDP, which brings the accumulated structural adjustment after 2006 to 8½ % of GDP.

As far as 2010 is concerned, the Hungarian Parliament adopted on 30 November 2009 a budget in compliance with the target of 3.8% of GDP for the 2010 general government deficit. It is underpinned by several expenditure-reducing structural measures, inter alia by further reforms of the pension and the social support system. In addition, the 2010 budget includes lower transfers from the central government to the long distance public transport system and to the municipalities. The Commission services' 2009 autumn forecast projected a general government deficit of 4.2% of GDP in 2010. Since then, additional details concerning the restructuring of the loss-making public transport system and the reduction of transfers to lower levels of government have rendered the 2010 deficit target of 3.8% of GDP more credible. However, the 2010 deficit target is still subject to a number of risks. Revenue, in particular from corporate income tax and excises, could be lower than expected, and expenditure could be higher, in particular regarding the long-distance public transport system and transfers to lower levels of government, as measures in both areas are not fully backed by structural savings. While reserves amounting to 0.8% of GDP should provide a sufficient cushion as requested in the Council recommendations of 7 July 2009, it cannot be excluded that further measures will need to be taken to reach the target. In this respect, the authorities have expressed their commitment to take adequate action should any downward risks materialise.

Regarding the structural balance, the Commission services’ 2009 autumn forecast showed no improvement in 2010. However, taking into account the additional measures in the area of the loss-making public transport system made public in December 2009 and the increased reserves in the final 2010 budget, there could be a small improvement in the structural balance in 2010[7]. Given the Council recommendation which asks for a cumulative fiscal effort over 2010 and 2011 of at least 0.5% of GDP, additional measures will be needed mainly in view of the tax cut of 0.6% of GDP foreseen in 2011 and would have to be reflected in the 2011 budget.

Hungary has made improvements in the area of fiscal governance that should facilitate future consolidation and reduce the risk of a return to unsustainable policies. A new fiscal framework is in place as of 2010. During the preparation of the 2010 budget, the majority of its new elements were already taken into account and the newly established Fiscal Council has taken up its work. A review of budgetary procedures has been prepared and published on the website of the Ministry of Finance on 15 December, explaining changes that became necessary due to the new fiscal framework and identifying some areas where further improvements are needed.

As far as the government debt-to-GDP ratio is concerned, the Commission services 2009 autumn forecast projects the ratio to stabilize just below 80% of GDP in 2010, and to start

[7] The calculation of the structural balance is associated with considerable uncertainties especially for new Member States.

diminishing in 2011. The additional measures outlined above and not yet taken into account in the autumn forecast should contribute to a slightly lower path for the debt ratio than projected. Moreover, a 2011 budget in line with the Council recommendations would further accelerate this development.

4.3. Conclusions

On current information it appears that Hungary has taken action representing adequate progress towards the correction of the excessive deficit within the time limits set by the Council. In particular, Hungary:

- took effective action with respect to the 2009 general government deficit target of 3.9% of GDP notably by adopting fiscal consolidation measures of 1½% of GDP in 2009 compared to the original budget and by enhancing expenditure control on line ministries, that offset revenue shortfalls;

- has adopted, on 30 November 2009, a central government 2010 budget in line with the general government deficit target of 3.8% of GDP and included structural measures in particular in the pension and the social support system supporting this target;

- has backed the vast majority of expenditure-reducing measures by appropriate laws that were adopted either already in 2009, or in the accompanying laws of the 2010 budget and has included in its 2010 budget a sufficient level of reserves;

- has started implementing its new fiscal framework in the context of the preparation of the 2010 budget, and has initiated work on further improving budgetary planning procedures and budget controls with a view to enhancing the medium-term budgetary framework.

However, there are considerable risks attached to the 2010 deficit target, both on the revenue and the expenditure side. Against this background, and in view of already agreed non-compensated tax cuts in 2011, the required cumulative 0.5% of GDP structural adjustment necessary to bring the deficit below 3% in 2011 is not yet ensured.

In view of the above assessment, the Commission considers that no further steps in the excessive deficit procedure of Hungary are needed at present. The Commission will continue to closely monitor budgetary developments in Hungary in accordance with the Treaty and the SGP, in particular in the light of the fragile situation of public finances.

Comparison of key macroeconomic and budgetary projections

		2007	2008	2009	2010	2011
Real GDP (% change)	COM autumn 2009 forecast	**1.0**	**0.6**	**-6.5**	**-0.5**	**3.1**
	National forecast	1.0	0.6	-6.7	-0.9	n.a.
Output gap[1] (% of potential GDP)	COM autumn 2009 forecast	**3.1**	**2.9**	**-4.0**	**-4.7**	**-2.0**
	National forecast	n.a.	n.a.	n.a.	n.a.	n.a.
General government balance (% of GDP)	COM autumn 2009 forecast	**-5.0**	**-3.8**	**-4.1**	**-4.2**	**-3.9**
	National forecast	-5.0	-3.8	-3.9	-3.8	n.a.
Primary balance (% of GDP)	COM autumn 2009 forecast	**-0.9**	**0.4**	**0.2**	**-0.1**	**-0.2**
	National forecast	-0.9	0.4	0.5	0.7	1.3
Cyclically-adjusted balance[2] (% of GDP)	COM autumn 2009 forecast	**-6.4**	**-5.1**	**-2.2**	**-2.1**	**-3.0**
	National forecast	n.a.	n.a.	n.a.	n.a.	n.a.
Structural balance[3] (% of GDP)	COM autumn 2009 forecast	**-5.5**	**-4.8**	**-2.1**	**-2.1**	**-3.0**
	National forecast	n.a.	n.a.	n.a.	n.a.	n.a.
Government gross debt (% of GDP)	COM autumn 2009 forecast	**65.9**	**72.9**	**79.1**	**79.8**	**79.1**
	National forecast	65.9	72.9	78.8	79.2	n.a.

Source: Hungarian Ministry of Finance, Second Notification under the EDP 2009, Sixth EDP progress report of September 2009, Commission services' 2009 autumn forecast

[1] The figures of the Commission services' 2009 autumn forecast are based on estimated potential growth of 1.4%, 0.8%, 0.3%, 0.2% and 0.3% respectively in the period 2007-2011.

[2] Due to the exceptionally volatile economic environment between 2008 and 2011, the usual cyclical component of the deficit, using standard elasticities, may not sufficiently capture the impact of the downturn.

[3] Structural balance = cyclically adjusted balance excluding one-off and other temporary measures.