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⁽¹⁾ Text with EEA relevance

I

(Information)

COUNCIL

COUNCIL OPINION

of 24 January 2006

on the updated stability programme of Finland, 2005-2009

(2006/C 55/01)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

- (1) On 24 January 2006 the Council examined the updated stability programme of Finland, which covers the period 2005 to 2009.
- (2) After recovering from an exceptionally deep recession in the beginning of the 1990s the Finnish economy expanded strongly over the period 1995–2004, reaching an average growth rate of 3,6 % p.a.. The strong pace of activity helped to raise the employment rate; nevertheless inflation remained below the euro-area average. The macroeconomic scenario underlying the programme envisages real GDP growth to ease from an annual average of 2,7 % in 2005-2006 to 2,3 % on average over the rest of the programme period. Assessed against currently available information, this scenario appears to be based on cautious growth assumptions. The programme's projections for inflation appear realistic.
- (3) In its opinion of 17 February 2005 on the previous update of the Stability Programme, covering the period 2004-2008, the Council endorsed the budgetary strategy presented in the programme. The general government surplus for 2005 is estimated, based on the Commission services' forecast, at 1,9 % of GDP, which corresponds closely to the targeted surplus in the previous update of the programme.
- (4) The updated programme broadly follows the model structure and data provision requirements of the stability and convergence programmes specified in the new code of conduct ⁽²⁾.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

⁽²⁾ The update has gaps in the compulsory and does not provide all optional data prescribed by the new code of conduct (especially data on external assumptions for the years 2007-2009 are missing).

- (5) The government's key objectives are achieving balanced central government finances under normal conditions of economic growth and securing the long-term sustainability of public finances. The general government surplus is projected to be on a slightly declining trend, to reach 1,5 % of GDP by 2008-2009; the decline in the primary surplus is somewhat steeper due to a projected drop in interest expenditure. The decline in the surplus is revenue-driven, reflecting the gradual enactment of tax cuts. Expenditure is projected to be kept in check by the government's budgetary spending ceilings and by a reduction in interest expenditure.

Compared with the previous update, the surplus estimates for 2006-2009 have been revised downwards by around 0,5 % of GDP, due to the tax cuts and a more cautious outlook on the financial position of social security funds and local governments.

- (6) Over the programme period, the structural surplus (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) calculated according to the commonly agreed methodology is planned to weaken slightly in the next three years from around 2 % of GDP in 2005 to 1,75 in the period 2006-2008, but to rebound in 2009 reflecting an estimated widening of the output gap. The programme projects the structural surplus to reach around 1,5 % of GDP by the end of the programme period ⁽¹⁾, which can be regarded as the programme's MTO as it is in line with the principles for MTOs specified in the Stability and Growth Pact and the code of conduct. As the programme's MTO is more demanding than the minimum benchmark (estimated at a deficit of around 1 % of GDP), its achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. As regards appropriateness, the programme's MTO lies within the range indicated for euro area and ERM II Member States in the Stability and Growth Pact and the code of conduct and is significantly more demanding than implied by the debt ratio and average potential output growth in the long term. Having an MTO well above the minimum required level is motivated in the programme by the goal of ensuring the long-term sustainability of public finances and the fact that in Finland the impact of an ageing population kicks in at an early stage.
- (7) The risks to the budgetary projections in the programme appear broadly balanced. Tax projections seem based on cautious assumptions and the expenditure ceiling framework has so far been very effective. The stability programme draws attention to the risk that the adverse effects on economic growth from population ageing and dwindling labour supply might be underestimated in the current calculations; however, as mentioned above, the economic growth projections in the update can be regarded as cautious.
- (8) In view of this risk assessment, the budgetary stance in the programme seems sufficient to maintain the programme's MTO throughout the programme period, as envisaged in the programme. In addition, it provides a sufficient safety margin against breaching the 3 % of GDP deficit ceiling with normal macroeconomic fluctuations for the entire period.
- (9) The debt ratio is estimated to have reached 42,7 % of GDP in 2005, well below the 60 % of GDP Treaty reference value. The programme projects the debt ratio to decline by 2,6 percentage points over the programme period.
- (10) Finland appears to be at low risk on grounds of the projected budgetary costs of ageing populations. The gross debt ratio is currently below the 60 % of GDP reference value, and is projected to remain below this value throughout most of the projection period which extends until 2050. The significant assets of social security and the currently favourable budgetary position contribute to limit the budgetary impact of ageing populations. However, in the long run, a risk to public finance sustainability could emerge, reflecting rising pension expenditure. Containing age-related expenditure over

⁽¹⁾ As calculated in the programme. Commission services' recalculations on the basis of the information in the programme according to the commonly agreed methodology give a structural surplus of 2 % of GDP in 2009.

the long term, including the successful implementation of recent reform measures aimed at rising the effective retirement age, while maintaining sound budgetary positions would be key components in reducing risks to public finance sustainability ⁽¹⁾.

- (11) The envisaged measures in the area of public finances are broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008. In particular, the measures are geared towards ensuring economic and fiscal sustainability and towards promoting growth and job creation, such as a major pension reform that is currently being phased in.
- (12) The National Reform Programme of Finland, submitted on 14 October 2005 in the context of the renewed Lisbon strategy for growth and jobs, identifies the following challenges with significant implications for public finances: (i) the sustainability of public finances and (ii) the functioning of the labour market. The budgetary implications of the actions outlined in the National Reform Programme are fully reflected in the budgetary projections of the stability programme. The measures in the area of public finances envisaged in the stability programme are in line with the actions foreseen in the National Reform Programme. In particular, the stability programme outlines measures to improve the efficiency of both central and local governments, and confirms the intention to continue with applying central government budgetary spending limits beyond the current legislation period.

The Council is of the opinion that, overall, the budgetary position is sound and the budgetary strategy provides a good example of fiscal policies conducted in compliance with the Pact.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008	2009
Real GDP (% change)	SP Nov 2005	3,6	2,1	3,2	2,6	2,3	2,1
	COM Nov 2005	3,6	1,9	3,5	3,1	n.a.	n.a.
	SP Dec 2004	3,2	2,8	2,4	2,2	2,0	n.a.
HICP inflation (%)	SP Nov 2005	0,2	1,0	1,3	1,5	1,8	1,8
	COM Nov 2005	0,1	1,0	1,4	1,3	n.a.	n.a.
	SP Dec 2004	0,2	1,4	1,8	1,8	1,8	n.a.
Output gap (% of potential GDP)	SP Nov 2005 ⁽¹⁾	0,0	- 0,7	- 0,2	- 0,2	- 0,5	- 0,9
	COM Nov 2005 ⁽⁵⁾	- 0,2	- 1,2	- 0,7	- 0,5	n.a.	n.a.
	SP Dec 2004 ⁽¹⁾	- 0,3	- 0,1	- 0,2	- 0,4	- 0,6	n.a.
General government balance (% of GDP)	SP Nov 2005	2,1	1,8	1,6	1,6	1,5	1,5
	COM Nov 2005	2,1	1,9	1,9	1,8	n.a.	n.a.
	SP Dec 2004	2,0	1,8	2,1	2,2	2,0	n.a.
Primary balance (% of GDP)	SP Nov 2005	3,7	3,4	3,1	2,9	2,8	2,8
	COM Nov 2005	3,8	3,8	3,7	3,6	n.a.	n.a.
	SP Dec 2004	3,7	3,4	3,8	3,9	3,7	n.a.

⁽¹⁾ Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services, to be published at the website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

		2004	2005	2006	2007	2008	2009
Cyclically-adjusted balance = structural balance ⁽²⁾ ⁽³⁾ (% of GDP)	SP Nov 2005 ⁽¹⁾	2,1	2,1	1,7	1,7	1,7	2,0
	COM Nov 2005 ⁽⁴⁾	2,3	2,7	2,3	2,1	n.a.	n.a.
	SP Dec 2004 ⁽¹⁾	2,2	1,9	2,2	2,4	2,4	n.a.
Government gross debt (% of GDP)	SP Nov 2005	44,9	42,7	41,7	41,1	40,6	40,1
	COM Nov 2005	45,1	42,8	41,5	40,6	n.a.	n.a.
	SP Dec 2004	44,6	43,4	42,5	41,7	41,1	n.a.

Notes:

⁽¹⁾ Commission services calculations on the basis of the information in the programme.

⁽²⁾ Cyclically-adjusted balance excluding one-off and other temporary measures.

⁽³⁾ One-off and other temporary measures taken from the programme.

⁽⁴⁾ One-off and other temporary measures taken from the Commission services' autumn 2005 forecast.

⁽⁵⁾ Based on estimated potential growth of 2,9 %, 2,9 %, 2,8 % and 2,7 % respectively in the period 2004-2007.

Source:

Stability programme (SP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations

COUNCIL OPINION
of 24 January 2006
on the updated convergence programme of the Czech Republic, 2005-2008

(2006/C 55/02)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, 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 24 January 2006 the Council examined the updated convergence programme of the Czech Republic, which covers the period 2005 to 2008.
- (2) After achieving progress in economic reforms and in stabilisation by mid-1990s, the Czech Republic experienced macroeconomic imbalances, leading to a foreign-exchange crisis in May 1997 and to an economic recession in 1997-1999. Comprehensive structural reforms in the financial and enterprise sectors helped the economy to recover from 2000. Since then real annual GDP growth averaged about 3 %, compared to an average annual growth rate of 1,7 % in the EU. The programme contains three different scenarios for the macroeconomic and budgetary projections: an 'optimistic' scenario, a 'baseline' and a 'pessimistic' scenario. The 'baseline' scenario is considered as the reference scenario for assessing budgetary projections because, assessed against currently available information, it appears to be based on plausible growth assumptions, tilted to favourable in the outer year. It envisages that real GDP growth will slightly decrease from 4,8 % in 2005 to 4,3 % on average over the rest of the programme period. The cyclical component of growth is likely to be higher than implied by the programme's projections. The programme's projections for inflation appear to be on the low side.
- (3) On 5 July 2004, the Council decided that the Czech Republic was in excessive deficit. According to the Council recommendation under Article 104(7) of 5 July 2004, the excessive deficit has to be corrected by 2008. In its opinion of 18 January 2005 on the previous update of the Czech Republic's convergence programme covering the period 2004-2007, the Council recommended to the Czech Republic 'to allocate higher-than-budgeted revenues to deficit reduction and adhere strictly to the medium-term expenditure ceilings for central government, which become legally binding from 2006'. Furthermore, the Czech Republic was invited 'to step up the pension reform and to undertake the reform of the healthcare system to improve the long-term sustainability of the public finances'.
- (4) The programme broadly follows the model structure and data provision requirements for stability and convergence programmes specified in the new code of conduct ⁽²⁾.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:

http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

⁽²⁾ The programme provides all compulsory and most optional data prescribed by the new code of conduct.

- (5) The general government deficit for 2005 is estimated at 3,2 % of GDP, based on the Commission services' autumn 2005 forecasts, against a targeted deficit of 4,7 % of GDP in the previous update and compared to a very cautious estimate of 4,8 % of GDP in the current update. The Commission services' estimate of the deficit outcome reflects more recent information on the budgetary performance of the central government, in particular of the state budget, which recorded higher-than-planned tax revenues and an under-execution of expenditures of about 1,5 % of GDP.
- (6) This update aims at reducing the general government deficit to below the 3 % of GDP reference value in 2008, in line with the Council recommendation under Article 104(7). In particular, it projects the deficit to be cut by over 2 percentage points of GDP between 2005 and 2008 and the primary deficit by 2,3 percentage points. However, excluding the impact of two one-off expenditures in 2005, the improvement in the nominal deficit over the period is only 1 percentage point of GDP. The deficit reduction mainly reflects a cut in the expenditure ratio (by 2,3 percentage points of GDP) over the programme period, while revenues are broadly unchanged (-0.2 percentage point). Public consumption and social transfers are the expenditure items that are planned to decline most as a percent of GDP. Public investment is foreseen to rise strongly, from 5 % of GDP in 2004 to over 6 % of GDP in 2008, well above the EU average (2,5 % of GDP in 2005). Compared with the previous programme, the November 2005 update broadly confirms the planned adjustment, although the underlying macroeconomic scenario is considerably stronger.
- (7) Over the programme period, the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) calculated according to the commonly agreed methodology is planned to improve by ½ % of GDP. The programme sets the medium-term objective (MTO) for the budgetary position at a structural deficit of 'around' 1 % of GDP, which it does not aim to achieve within the programme period. As the programme's MTO is more demanding than the minimum benchmark (estimated at a deficit of around 1,5 % of GDP), its eventual achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. The programme's MTO is at an appropriate level under the current assessment because it adequately reflects the debt ratio and average potential output growth in the long term.
- (8) The risks to the budgetary projections in the programme appear broadly balanced. On the one hand, the track record of cautious budgetary planning indicates that outcomes could be better than targeted (as was the case in 2004 and is expected by the Commission services also for 2005). The growth assumptions underlying the budgets have usually been realistic and the assumptions about tax elasticities cautious. Moreover, budgeted expenditures have not always been fully executed, mainly due to the possibility to carry over unspent funds from previous budgetary years. On the other hand, the programme refers to several (proposed) measures in the area of social spending which would increase expenditure under this heading rather than decrease it, as projected in the programme. Moreover, expenditure carryovers of more than 1 % of GDP were accumulated in 2004 and Commission services expect their volume to further increase in 2005. If these sizeable carryovers were spent in addition to all budgeted expenditures — which cannot be excluded especially in the election year 2006 — budgetary outcomes could be worse than targeted, in particular in 2006. Furthermore, the growth assumption in the final year of the programme seems favourable.
- (9) In view of this risk assessment, the budgetary stance in the programme seems consistent with a correction of the excessive deficit by 2008 as recommended by the Council, which is the end-year of the programme. However, the envisaged adjustment path in structural terms could be strengthened, especially when the possibility of a much better outcome in 2005 and the upward revision of growth prospects are taken into account.
- (10) The debt ratio is estimated to have reached 37,4 % of GDP in 2005, well below the 60 % of GDP Treaty reference value. The programme projects the debt ratio to increase by 0,5 percentage point over the programme period.

- (11) With regard to the sustainability of public finances, the Czech Republic appears to be at high risk on grounds of the projected budgetary costs of ageing populations. While the debt ratio is currently relatively low in an EU perspective, the high deficit contributes to a rising debt ratio in the long-term projections until 2050, which increases the risk to debt sustainability. At the same time, the projected high increases of pension expenditure over the projection period are expected to put a significant burden on the public finances. A rigorous implementation of the planned consolidation of public finances over the medium term and a further strengthening of the budgetary position together with additional structural reforms to contain the increase in age-related expenditures, in particular on pensions and health care, appear to be of key importance in order to mitigate the risks to public finance sustainability ⁽¹⁾.
- (12) The envisaged measures in the area of public finances are broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008. In particular, the programme foresees the correction of the excessive deficit in line with the Council's recommendations. It also presents measures to promote a growth- and employment-oriented allocation of resources, in particular by decreasing the weight of the public sector in the economy and by shifting the tax burden from direct to indirect taxation. However, while the government is aware of the problem of the long-term sustainability, the programme does not present concrete steps to address it.
- (13) The National Reform Programme of the Czech Republic, submitted on 14 October 2005 in the context of the renewed Lisbon strategy for growth and jobs, identifies long-term sustainability as the main challenge with implications for public finances. The budgetary implications of the limited number of concrete reform measures specified in the National Reform Programme are reflected in the budgetary projections of the convergence programme. The measures in the area of public finances envisaged in the convergence programme are in line with the actions foreseen in the National Reform Programme. In particular, the convergence programme outlines measures to support jobs and growth by changes in the revenue and expenditure structure (especially a shift of the tax burden from direct to indirect taxation and a cut in government consumption and transfers) and by making public investment a spending priority, but, as stated above, it does not present any concrete reform steps to address the problem of long-term sustainability. The programme further envisages a strengthening of the role of the medium-term expenditure ceilings by implementing the binding principles on the headings of the state budget and of the state funds and by inclusion of local governments in the budgetary planning process.

In view of the above assessment, the Council notes that the programme follows the deficit adjustment path set by the Council recommendations under Article 104(7). In the light of these recommendations, the Council is of the opinion that the Czech Republic should:

- (i) strengthen, in the context of possible better budgetary outcome in 2005 as well as strong growth outcome and prospects, the effort in the structural budgetary adjustment, in view of the small margin below the reference value targeted for 2008 (which is the deadline for the correction of the excessive deficit) and in order to speed up the attainment of the MTO;
- (ii) enhance the quality of budgetary planning, in particular by analysing causes of significant expenditure carryovers and reinforcing the medium-term expenditure ceilings;
- (iii) improve the long-term sustainability of the public finances, in particular by accelerating the pension reform and undertaking the reform of the healthcare system.

⁽¹⁾ Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services, to be published at the website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008
Real GDP (% change)	CP Nov 2005	4,4	4,8	4,4	4,2	4,3
	COM Nov 2005	4,4	4,8	4,4	4,3	n.a.
	CP Dec 2004	3,8	3,6	3,7	3,8	n.a.
HICP inflation (%)	CP Nov 2005	2,6	1,5	2,2	2,0	2,1
	COM Nov 2005	2,6	1,7	2,9	2,6	n.a.
	CP Dec 2004	2,7	3,2	2,6	2,2	n.a.
Output gap (% of potential GDP)	CP Nov 2005 ⁽¹⁾	- 1,9	- 0,8	- 0,1	0,3	0,8
	COM Nov 2005 ⁽²⁾	- 1,4	- 0,2	0,6	1,2	n.a.
	CP Dec 2004 ⁽¹⁾	- 1,3	- 0,9	- 0,4	0,3	n.a.
General government balance (% of GDP)	CP Nov 2005	- 3,0	- 4,8	- 3,8	- 3,3	- 2,7
	COM Nov 2005	- 3,0	- 3,2	- 3,7	- 3,3	n.a.
	CP Dec 2004	- 5,2	- 4,7	- 3,8	- 3,3	n.a.
Primary balance (% of GDP)	CP Nov 2005	- 1,8	- 3,5	- 2,5	- 2,0	- 1,2
	COM Nov 2005	- 1,8	- 1,9	- 2,3	- 1,9	n.a.
	CP Dec 2004	- 4,0	- 3,4	- 2,4	- 1,7	n.a.
Cyclically-adjusted balance (% of GDP)	CP Nov 2005 ⁽¹⁾	- 2,4	- 4,5	- 3,8	- 3,4	- 3,0
	COM Nov 2005	- 2,5	- 3,1	- 3,9	- 3,8	n.a.
	CP Dec 2004 ⁽¹⁾	n.a.	n.a.	n.a.	n.a.	n.a.
Structural balance ⁽²⁾ (% of GDP)	CP Nov 2005 ⁽³⁾	- 1,9	- 3,4	- 3,8	- 3,4	- 3,0
	COM Nov 2005 ⁽⁴⁾	- 2,0	- 2,0	- 3,9	- 3,8	n.a.
	CP Dec 2004	n.a.	n.a.	n.a.	n.a.	n.a.
Government gross debt (% of GDP)	CP Nov 2005	36,8	37,4	37,1	37,9	37,8
	COM Nov 2005	36,8	36,2	36,6	36,9	n.a.
	CP Dec 2004	38,6	38,3	39,2	40,0	n.a.

Notes:

⁽¹⁾ Commission services calculations on the basis of the information in the programme.

⁽²⁾ Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.

⁽³⁾ One-off and other temporary measures taken from the fiscal notification (0,5 % in 2004) and from the programme (1,1 % in 2005); both deficit-increasing.

⁽⁴⁾ One-off and other temporary measures taken from the Commission services' autumn 2005 forecast (0,5 % of GDP in 2004, 1,1 % in 2005; both deficit-increasing).

⁽⁵⁾ Based on estimated potential growth of 3,5 %, 3,5 %, 3,6 % and 3,7 % respectively in the period 2004-2007.

Source:

Convergence programme (CP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations

COUNCIL OPINION
of 24 January 2006
on the updated convergence programme of Denmark, 2005-2010

(2006/C 55/03)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, 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 24 January 2006 the Council examined the updated convergence programme of Denmark, which covers the period 2005 to 2010.
- (2) Over the last decade, GDP growth has averaged some 2 per cent, while inflation has broadly followed euro area inflation. Employment growth has picked up in recent years and unemployment is close to its lowest level in the last decade. The macroeconomic scenario underlying the programme envisages real GDP growth of 2,4 % in 2006 and 1,6 % on average over the rest of the programme period. Assessed against currently available information, this scenario appears to be cautious, in particular regarding the technically-assumed growth rates for 2007 and 2008. The programme's projections for inflation appear realistic.
- (3) On 17 February 2005, in its opinion the Council endorsed the budgetary strategy presented in the 2004 update of the convergence programme of Denmark. Regarding the 2005 budgetary implementation, the 2004 update targeted a 2,2 % of GDP general government surplus for 2005 while the current update forecast a 3,6 % surplus for a similar GDP growth outlook. Revenues have come in better than expected, including revenues from the pension fund yield tax as well as from oil and gas exploitation.
- (4) The programme broadly follows the model structure and data requirements for stability and convergence programmes specified in the new code of conduct ⁽²⁾.
- (5) The budgetary strategy aims at maintaining structural surpluses between 1,5 % and 2,5 % on average over the programme period, implying a marked reduction in the general government debt ratio, in order to provide a sound basis for the ageing of the population. The strategy is based on expenditure restraint, with the objective of keeping the annual growth of real public consumption at 0,5 %, and maintenance of the tax freeze and of a balanced budget requirement for local governments. The update foresees the general government surplus to narrow from 3,6 % of GDP in 2005 to 3,1 % in 2006 and 3,2 % in 2007, then declining slightly to reach 2,9 % of GDP at the end of the programme period. The estimated general government surpluses in the present update are markedly higher than in the previous update while projected GDP growth is similar.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

⁽²⁾ The programme has gaps in the compulsory data and does not provide all optional data prescribed by the new code of conduct (especially projected world and EU GDP growth for certain years are missing).

- (6) As its MTO, the programme targets a structural balance (taking into account the use of the transition period of the Eurostat decision mentioned above) of between 1,5 % and 2,5 % of GDP over the programme period. In structural terms (i.e. in cyclically-adjusted terms net of one-off and other temporary measures), the surplus falls from a peak of 3,6 % of GDP in 2005 to around 2,75 % of GDP in 2006 before firming to 3,25 % of GDP thereafter. However, the calculated easing in 2006 by 0,8 percentage point of GDP reflects a normalisation of expected tax receipts from pension funds, which were exceptionally high in 2005. Corrected for the temporary higher revenues in 2005 the structural surplus is broadly unchanged from 2005 to 2006.
- (7) As the MTO is more demanding than the minimum benchmark (estimated at a deficit of about 0,5 % of GDP), its achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. As regards appropriateness, the programme's MTO lies within the range indicated for euro area and ERM II Member States in the Stability and Growth Pact and the code of conduct and is significantly more demanding than implied by the debt ratio and average potential output growth in the long term. The programme explains that it is set at a more demanding level than required by the Pact to set a sound basis for long-term fiscal sustainability through a rapid debt reduction.
- (8) On balance, the risks to the budgetary projections in the update appear to be on the positive side, in particular as GDP growth may be higher than expected, mainly due to the technically-assumed low GDP growth in 2007 and 2008 stemming from a gradual closing of the output gap as estimated by the Danish authorities. Hence, GDP growth and the budgetary outcome in these years could be better than projected in the programme. A negative risk is the compliance with the target of limiting the growth of real public consumption, against the background of a mixed track record in this regard.
- (9) In view of this risk assessment, the budgetary stance in the programme seems sufficient to maintain the programme's MTO throughout the programme period. In addition, it provides a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations in each year. The fiscal policy stance implied by the programme is also in line with the Stability and Growth Pact in the sense that it is not pro-cyclical in good economic times — appropriate account taken of the exceptionally high revenues from pension yield tax and oil and gas extraction that boost the estimated surplus for 2005 — which is important given the cyclical position of the Danish economy. The reclassification of second-pillar funded pension schemes from spring 2007 (when the transition period for the implementation of the Eurostat decision of 2 March 2004 on the matter expires) will reduce the Danish surpluses by around 1 % of GDP in each year but would not materially alter this assessment.
- (10) The debt ratio is estimated to have reached 36 % of GDP in 2005, well below the 60 % of GDP Treaty reference value. The programme projects the debt ratio to decline by around 14 percentage points over the programme period.
- (11) With regard to the sustainability of public finances, Denmark appears to be at low risk on grounds of the projected budgetary costs of an ageing population, due to its solid public finances and provided that the assumed employment increases and low government consumption growth are achieved, which requires further labour market reforms and spending restraint. The strategy of putting sustainability concerns at the heart of fiscal policy making, including containing pension expenditure and involving accumulation of assets, contributes positively to the long-term outlook for public finances. The currently favourable budgetary position contributes to the financing of the projected budgetary impact of an ageing population and the medium-term budgetary plans are consistent with sustainable public finances ⁽¹⁾.

⁽¹⁾ Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services, to be published at the website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

- (12) The envisaged measures in the area of public finances are broadly consistent with the broad economic policy guidelines, included in the integrated guidelines for the period 2005-2010. In particular, Denmark respects its MTO. However, new measures have not been specified to achieve the assumed increase in employment of close to 2 % of the labour force by 2010.
- (13) The National Reform Programme of Denmark, submitted on 26 October 2005 within the context of the renewed Lisbon strategy for growth and jobs, puts emphasis on improving labour supply to ensure the long-term sustainability of public finances and improving the efficiency of the public sector. The budgetary implications of the actions outlined in the National Reform Programme are fully reflected in the budgetary projections of the convergence programme. The measures in the area of public finances envisaged in the convergence programme are in line with the actions foreseen in the National Reform Programme.

The Council is of the opinion, that, overall, the budgetary position is sound and the budgetary strategy provides a good example of fiscal policies conducted in compliance with the pact.

Comparison of key macroeconomic and budgetary projections ⁽¹⁾

		2004	2005	2006	2007	2008	2010
Real GDP (% change)	CP Nov 2005	2,0	2,4	2,4	1,1	1,6	2,1
	COM Nov 2005	2,1	2,7	2,3	2,1	n.a.	n.a.
	CP Nov 2004	2,2	2,5	1,3	1,9	1,8	1,8
HICP inflation (%)	CP Nov 2005	0,9	1,6	2,0	1,3	1,9	1,8
	COM Nov 2005	0,9	1,7	2,0	1,9	n.a.	n.a.
	CP Nov 2004	1,2	1,7	1,6	1,7	n.a.	1,6
Output gap (% of potential GDP)	CP Nov 2005 ⁽²⁾	- 0,8	- 0,3	0,1	- 0,7	- 0,9	- 0,6
	COM Nov 2005 ⁽⁶⁾	- 1,3	- 0,6	- 0,4	- 0,4	n.a.	n.a.
	CP Nov 2004 ⁽²⁾	- 0,6	- 0,1	- 0,5	- 0,4	n.a.	- 0,4
General government balance (% of GDP)	CP Nov 2005	2,3	3,6	3,1	3,2	2,7	2,9
	COM Nov 2005	2,9	3,7	3,0	2,7	n.a.	n.a.
	CP Nov 2004	1,4	2,2	1,8	1,9	2,2	2,2
Primary balance (% of GDP)	CP Nov 2005	4,7	5,6	4,7	4,1	3,5	3,7
	COM Nov 2005	5,3	5,8	4,9	4,4	n.a.	n.a.
	CP Nov 2004	4,5	4,8	4,5	4,6	n.a.	4,4
Cyclically-adjusted balance (% of GDP)	CP Nov 2005 ⁽²⁾	2,8	3,8	3,0	3,6	3,3	3,3
	COM Nov 2005	3,8	4,1	3,3	3,0	n.a.	n.a.
	CP Nov 2004 ⁽²⁾	1,7	2,0	2,0	2,0	n.a.	2,3

		2004	2005	2006	2007	2008	2010
Structural balance ⁽³⁾ (% of GDP)	CP Nov 2005 ⁽⁴⁾	2,6	3,6	2,7	3,3	3,3	3,3
	COM Nov 2005 ⁽⁵⁾	3,6	3,9	3,0	2,7	n.a.	n.a.
	CP Nov 2004	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Government gross debt (% of GDP)	CP Nov 2005	42,3	35,6	31,7	28,9	26,5	21,5
	COM Nov 2005	43,2	36,0	33,0	31,5	n.a.	n.a.
	CP Nov 2004	42,3	39,4	37,4	35,3	33,1	28,8

Notes:

- (¹) The budgetary projections exclude the impact of the Eurostat decision of 2 March 2004 on the classification of funded pension schemes, which needs to be implemented by the time of the spring 2007 notification. Including this impact, the general government balance would be 1,3 % of GDP in 2004, 2,7 % in 2005, 2,1 % in 2006, 2,2 % in 2007, 1,7 % in 2008 and 1,9 % in 2009, while government gross debt would be 43,5 % of GDP in 2004, 36,8 % in 2005, 32,9 % in 2006, 30,1 % in 2007, 27,7 % in 2008 and 22,7 % in 2010.
- (²) Commission services calculations on the basis of the information in the programme.
- (³) Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.
- (⁴) One-off and other temporary measures taken from the programme (0,2 % of GDP in 2004 and 2005 and 0,3 % in 2006 and 2007; all deficit-reducing).
- (⁵) One-off and other temporary measures taken from the Commission services' autumn 2005 forecast (0,2 % of GDP in 2004 and 2005 and 0,3 % in 2006 and 2007; all deficit-reducing).
- (⁶) Based on estimated potential growth of 1,9 %, 2,1 %, 2,1 % and 2,1 % respectively in the period 2004-2007.

Source:

Convergence programme (CP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations

COUNCIL OPINION
of 24 January 2006
on the updated convergence programme of Hungary, 2005-2008
(2006/C 55/04)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, 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 24 January 2006 the Council examined the updated convergence programme of Hungary, which covers the period 2005 to 2008.
- (2) Following the adoption of a comprehensive economic reform package in the mid-nineties, sound macroeconomic policies and appropriate structural reforms supported stable and high rates of growth and a reduction in inflation. However, starting in 2001, public expenditure increased significantly and generous wage policies were implemented resulting in large macroeconomic imbalances. While growth has become more balanced and inflation and wage growth have decelerated in recent years, Hungary continues to struggle with high budget and external deficits. The macroeconomic scenario presented in the 2005 December update envisages that real GDP growth remains stable at about 4 % over the rest of the programme period, driven by investment and exports.

Assessed against currently available information, this scenario appears to be based on plausible growth assumptions, while it seems to be favourable in the outer year. The projected reduction in the external deficit is conditional upon the fulfilment of fiscal tightening together with the implementation of structural reforms boosting potential output. The programme's projections for inflation appear realistic.

- (3) On 5 July 2004, the Council decided that Hungary was in excessive deficit and issued a recommendation under Article 104(7) that this situation should be corrected by 2008 at the latest in line with the adjustment path contained in Hungary's May convergence programme. Following a decision in January 2005 of no compliance under Article 104(8), the Council issued for the second time recommendations under Article 104(7) on 8 March 2005, maintaining 2008 as the target year by which the excessive deficit should be corrected. The Council recommended to the Hungarian authorities to take effective action in order to achieve the deficit target for 2005 as set in the updated convergence programme, and to make the timing and implementation of any tax cuts conditional upon the achievement of the deficit targets of the same convergence programme update. The same was reflected in the Council opinion of the 2004 update of the convergence programme also adopted on 8 March 2005. The update continues to target ending the excessive deficit by 2008. The foreseen

⁽¹⁾ OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

deficit path is 6,1 % of GDP in 2005, 4,7 % of GDP in 2006, 3,3 % of GDP in 2007 and 1,9 % of GDP in 2008, representing a yearly cut of 1,4 percentage point of GDP. The time profile of the primary surplus is similar. These budgetary projections exclude one-offs and the impact of the Eurostat decision of 2 March 2004 on the classification of funded pension schemes, ranging from 1 to 1,5 % of GDP, taken into account by the time of the spring 2007 notification ⁽¹⁾. The 2005 target was increased in September 2005 by the Hungarian authorities from the 3,6 % of GDP contained in the 2004 December update to 6,1 % of GDP. The Commission services' autumn 2005 forecast indicated that such a revised target for 2005 was within reach. Latest available cash data support this view.

- (4) The update broadly follows the model structure and the data provision requirements, with some exceptions, for stability and convergence programmes specified in the new code of conduct ⁽²⁾.
- (5) The update foresees an improvement in the structural balance from -5,7 % of GDP in 2005 to -2,1 % of GDP in 2008 (excluding the effect of the pension reform). The MTO is not explicitly set in the programme, but can be inferred from it and is a structural deficit of between -0,5 % and -1 % of GDP.
- (6) The budgetary outcome could be much worse than projected in the programme. Following an expected deficit in 2005 of 6,1 % of GDP, the programme specifies in detail tax reductions summing up to 3,5 % of GDP. The consolidation in the programme relies on a very large cut in expenditures of 7,5 % of GDP, the implementation of which is not backed by concrete measures.
- (7) In view of this risk assessment, the policy behind the budgetary stance in the programme needs to be substantiated to ensure its consistency with a correction of the excessive deficit by 2008 as recommended by the Council, which is the end-year of the programme.
- (8) The debt ratio is estimated to have reached 57,7 % of GDP in 2005. The programme projects the debt ratio to decline by about 1½ percentage points of GDP over the programme period. The evolution of the debt ratio could be less favourable than projected in the programme in the light of the above-mentioned risks to the budgetary targets.
- (9) With regard to the sustainability of public finances, Hungary appears to be at high risk on grounds of the projected budgetary costs of ageing populations. The gross debt-to-GDP ratio is currently close to the reference value and is projected to increase in the period up to 2050. Hungary reformed its pension system in the late 1990s, aimed at contained future rises in expenditure on pensions, which helped to reduce the budgetary impact of ageing. However, increases in government expenditure on pensions could be higher than projected in the update, suggesting that a close monitoring of factors that are assumed to offset such higher expenditures as well as developments in pension and other age-related expenditures is important. Moreover, the currently high structural deficit contributes to increase sustainability risks. It is therefore necessary to carry out a large consolidation of public finances over the medium-term and to further strengthen the budgetary position in order to reduce risks to public finance sustainability ⁽³⁾.
- (10) The envisaged measures in the area of public finances are not consistent with the broad economic policy guidelines, included in the integrated guidelines for the period 2005-2008. Even if the objectives are consistent with the guidelines, their implementation is subject to major risks. Hungary has not complied with the second 104(7) recommendations of the Council of 8 March 2005 under the excessive deficit procedure, as decided by the Council on 8 November 2005 based on Article 104(8) of the Treaty. The update retains a multi-annual framework for correcting the excessive deficit by 2008, although the budgetary outcome could be much worse unless the fiscal measures underpinning the fiscal objectives are specified and strictly implemented.

⁽¹⁾ Including this impact, the general government balance according to the updated programme would be 7,4 % of GDP in 2005, 6,1 % in 2006, 4,7 % in 2007 and 3,4 % in 2008, while government gross debt would be 60,3 % of GDP in 2004, 61,5 % in 2005, 63,0 % in 2006, 63,2 % in 2007 and 62,3 % in 2008. This does, however, still not include the purchase of military airplanes of an additional 0,3 percentage point of GDP in both 2006 and 2007.

⁽²⁾ The update provides all compulsory and most optional data prescribed by the new code of conduct. Exceptions concern the recording of military expenditure which is not in line with ESA requirements and the treatment of FISIM.

⁽³⁾ Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services, to be published at the website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

- (11) The National Reform Programme of Hungary submitted on 14 October 2005 in the context of the renewed Lisbon strategy for growth and jobs identifies the gradual and continued decrease of the size and deficit of the general government sector as a main challenge. The budgetary implications of the reform measures of the National Reform Programme are reflected in the budgetary projections of the convergence programme as far as the tax reductions are concerned. The update explains the recently adopted five-year tax cut programme and presents a number of plans for the reform of the public sector without, however, providing the necessary specifications and quantifications. These plans are broadly in line with the National Reform Programme.

In view of the above assessment, the Council considers that effective fiscal action is required. In accordance with the second paragraph of Art. 9 of section 3 of Council Regulation (EC) no 1466/97 as amended, the Council invites Hungary to present as soon as possible and by 1 September 2006 at the latest an adjusted convergence programme update which identifies concrete and structural measures that are fully consistent with its medium-term adjustment path. In the meantime, Hungary should do the necessary to achieve its budgetary objectives for 2006 and beyond.

Comparison of key macroeconomic and budgetary projections ⁽¹⁾

		2004	2005	2006	2007	2008
Real GDP (% change)	CP Dec 2005 ⁽⁶⁾	4,2	4,0	4,1	4,0	4,0
	COM Nov 2005	4,2	3,7	3,9	3,9	n.a.
	CP Dec2004	3,9	4,0	4,2	4,3	4,6
HICP inflation (%)	CP Dec 2005	6,8	3,5	2,1	3,0	2,4
	COM Nov 2005	6,8	3,7	2,0	3,0	n.a.
	CP Dec2004	6,8	4,5	4,0	3,5	3,0
Output gap (% of potential GDP)	CP Dec 2005 ⁽²⁾	- 1,3	- 1,0	- 0,5	- 0,1	0,4
	COM Nov 2005 ⁽⁷⁾	- 0,9	- 0,7	- 0,3	0,2	n.a.
	CP Dec2004 ⁽²⁾	n.a.	n.a.	n.a.	n.a.	n.a.
General government balance (% of GDP)	CP Dec 2005	- 5,4	- 6,1	- 4,7 ⁽⁸⁾	- 3,3 ⁽⁸⁾	- 1,9
	COM Nov 2005	- 5,4	- 6,1	- 6,7	- 6,9	n.a.
	CP Dec2004	- 4,5	- 3,6	- 2,9	- 2,2	- 1,6
Primary balance (% of GDP)	CP Dec 2005	- 1,1	- 2,5	- 1,5	- 0,3	+ 0,8
	COM Nov 2005	- 1,5	- 2,2	- 3,0	- 3,4	n.a.
	CP Dec2004	- 0,5	0,0	0,2	0,6	1,0
Cyclically-adjusted balance (% of GDP)	CP Dec 2005 ⁽²⁾	- 4,8	- 5,7	- 4,5 ⁽⁸⁾	- 3,3 ⁽⁸⁾	- 2,2
	COM Nov 2005	- 5,3	- 5,8	- 6,6	- 7,0	n.a.
	CP Dec2004 ⁽²⁾	n.a.	n.a.	n.a.	n.a.	n.a.

		2004	2005	2006	2007	2008
Structural balance ⁽³⁾ (% of GDP)	CP Dec 2005 ⁽⁴⁾	– 4,8	– 5,7	– 4,5	– 3,3	– 2,2
	COM Nov 2005 ⁽⁵⁾	– 5,3	– 6,3	– 7,6	– 8,5	n.a.
	CP Dec2004	n.a.	n.a.	n.a.	n.a.	n.a.
Government gross debt (% of GDP)	CP Dec 2005	57,2	57,7	58,4 ⁽⁸⁾	57,9 ⁽⁸⁾	56,2 ⁽⁸⁾
	COM Nov 2005	57,4	57,2	58,0	59,2	n.a.
	CP Dec2004	57,3	55,5	53,0	50,6	48,3

Notes:

(¹) The budgetary projections exclude the impact of the Eurostat decision of 2 March 2004 on the classification of funded pension schemes, which needs to be implemented by the time of the spring 2007 notification. Including this impact, the general government balance according to the updated programme would be 6,5 % of GDP in 2004, 7,4 % in 2005, 6,1 % in 2006, 4,7 % in 2007 and 3,4 % in 2008, while government gross debt would be 60,3 % of GDP in 2004, 61,5 % in 2005, 63,0 % in 2006, 63,2 % in 2007 and 62,3 % in 2008 (see also footnote 8).

(²) Commission services calculations on the basis of the information in the programme.

(³) Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.

(⁴) The programme provides no information on one-off and other temporary measures.

(⁵) One-off and other temporary measures taken from the Commission services' autumn 2005 forecast.

(⁶) Before FISIM allocation (after FISIM allocation 4,6 % in 2004, 4,2 % in 2005, 4,3 % in 2006, 4,1 % in 2007 and 4,1 % in 2008).

(⁷) Based on estimated potential growth of 3,7 %, 3,5 %, 3,5 % and 3,4 % respectively in the period 2004-2007.

(⁸) Not including military purchase of 0,3 % of GDP in both 2006 and 2007.

Source:

Convergence programme (CP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations

COUNCIL OPINION
of 24 January 2006
on the updated convergence programme of Slovakia, 2005-2008
(2006/C 55/05)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, 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 24 January 2006 the Council examined the updated convergence programme of Slovakia, which covers the period 2005 to 2008.
- (2) Slovak real GDP growth averaged 4,3 % between 1994 and 2004 almost two percentage points above the EU25 average of 2,4 %. Despite improvement in 2005, the labour market situation remains the country's major problem. As a consequence of accelerated enterprise restructuring in the late 1990s, the unemployment rate increased from 13,7 % in 1994 to 18,2 % in 2004 while total employment decreased by two percentage points over the same period. The macroeconomic scenario assumes that real GDP growth will average 5,6 % per year over the programme period and, starting with a negative output gap in 2005, implies a marked swing in cyclical conditions. Assessed against currently available information, this scenario appears to be based on plausible growth assumptions. The programme's projections for inflation also appear realistic.
- (3) On 5 July 2004, the Council decided that Slovakia was in excessive deficit. According to the Council recommendation under Article 104(7) of the same date, the excessive deficit has to be corrected by 2007. In its opinion of 17 February 2005 on the previous update of Slovakia's convergence programme covering the period 2004-2007, the Council invited Slovakia to '(i) seize every opportunity for an accelerated deficit reduction, including through the use of better-than-expected revenues and of savings on the expenditure side, in particular in 2005; (ii) make the medium-term expenditure ceilings more binding; (iii) be vigilant that second-round effects from the high inflation in 2004 do not affect the inflation convergence path envisaged in the programme'.
- (4) The updated programme broadly follows the model structure and data provision requirements for stability and convergence programmes specified in the new code of conduct ⁽²⁾.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

⁽²⁾ The programme update has gaps in the 'compulsory' and does not provide all optional data prescribed by the new code of conduct. Compulsory data on nominal effective exchange rate and on FISIM are missing, as well as optional data on general government expenditure by function for 2008.

- (5) The programme aims at reducing the deficit to below the 3 % of GDP reference value in 2007, in line with the Council recommendation under Article 104(7) from 5 July 2004. The general government deficit (net of the pension reform costs) is projected to decrease from 4,1 % of GDP (including 0,8 % of GDP debt cancellations) in 2005 to 2,9 % in 2006, then decline sharply to 1,6 % of GDP in 2007 and reach 1,3 % of GDP in 2008. The profile of the primary balance is similar, which is expected to improve from -2,3 % of GDP (-1,5 % of GDP excluding debt cancellations amounting to 0,8 % of GDP) in 2005 to 0,7 % in 2008. The budgetary adjustment is mainly expenditure based. The government expenditure-to-GDP ratio is expected to fall by 3,4 percentage points between 2005 and 2008 (by 2,6 percentage points excluding 0,8 % of GDP of debt cancellations in 2005). General government revenues are estimated to remain broadly stable until 2007 and then decrease by 0,7 % of GDP in 2008. The budgetary impact of the classification of the second-pillar funded pension scheme outside the general government sector (which has to be implemented by the time of the spring 2007 notification) is estimated at 0,8 %, 1,3 %, 1,4 % and 1,4 % of GDP in 2005, 2006, 2007 and 2008 respectively. The planned fiscal consolidation is back-loaded, mainly concentrated in 2007.
- (6) Over the programme period, the structural balance (i.e. the cyclically-adjusted budget balance net of one-off and other temporary measures) calculated according to the commonly agreed methodology is planned to improve on average by 0,4 % of GDP per year, from -2,8 % of GDP to -1,5 % of GDP. The programme sets the medium-term objective (MTO) for the budgetary position in structural terms at a deficit of 0,9 % of GDP and aims at achieving this position by 2010 (beyond the programme period). As the programme's MTO is more demanding than the minimum benchmark (estimated at a deficit of around 2¼ % of GDP), its achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. The programme's MTO is at an appropriate level because it lies within the range indicated for euro area and ERM II Member States in the Stability and Growth Pact and the code of conduct, and adequately reflects the debt ratio and average potential output growth in the long term.
- (7) The risks to the budgetary projections in the programme appear broadly balanced. Although the programme is not very explicit about the specific measures planned to be adopted in order to reach the 2007 deficit target, the update emphasizes that the medium-term budgetary framework approved by the government is based exclusively on currently valid legislation and on government approved legislative changes. The current government has so far more-than-respected the budgetary targets set in the previous programmes: after a lower-than-expected 2004 deficit, a better-than-planned result is also anticipated for 2005 (if debt cancellations of 0,8 % of GDP are excluded). Nevertheless, some of the financial resources that were freed by lower-than-expected interest expenditure in 2005 were used to cover other unbudgeted public expenditures highlighting the need for more binding ceilings for expenditure items.
- (8) In view of this risk assessment, the budgetary stance in the programme seems consistent with a correction of the excessive deficit by 2007 as recommended by the Council. However, the budgetary stance in the programme may not be sufficient to ensure that the programme's MTO is achieved in 2010, as envisaged in the programme. In 2008 (the year following the correction of the excessive deficit), the pace of the adjustment towards the programme's MTO implied by the programme is not in line with the Stability and Growth Pact, which specifies that, for euro area and ERM II Member States, the annual improvement in the structural balance should be 0,5 % of GDP as a benchmark and that the adjustment should be higher in good economic times and could be lower in bad economic times. In particular, in 2008 the improvement in the structural balance is only around ¼ % of GDP, when cyclical conditions signal 'good times' ⁽¹⁾.
- (9) The debt ratio is estimated to have reached 33,7 % of GDP in 2005, which is well below the 60 % of GDP Treaty reference value and 10,5 % points lower than envisaged in the previous update of the programme. This downward revision is mostly due to a stock-flow adjustment. The programme projects the debt ratio to increase by 2,5 percentage points over the programme period.

(1) Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services, to be published at the website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

- (10) With regard to the sustainability of public finances, Slovakia appears to be at low risk on grounds of the projected budgetary costs of ageing populations, subject to the sustained fiscal consolidation also beyond the programme period and the full implementation of enacted reforms, as well as other reforms of a structural nature (including a reduction of unemployment). The level of debt is significantly under the 60 % reference value and should remain so under the assumption of unchanged policies for the coming two decades. However, the continuation of the currently high structural deficit will prevent the reduction of the debt/GDP ratio, which increases the risk to long-term sustainability. Implementing rigorously the planned consolidation of public finances over the medium-term is necessary in order to reduce risks to long-term sustainability.
- (11) The envisaged measures in the area of public finances are broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008. Slovakia is on track to correct its excessive deficit by the deadline set by the Council.
- (12) The National Reform Programme of Slovakia, submitted on 14 October 2005 in the context of the renewed Lisbon strategy for growth and jobs, identifies the following challenges with significant implications for public finances: (i) information society; (ii) R&D and innovations; and (iii) education and employment. The budgetary implications of the actions outlined in the National Reform Programme are fully reflected in the budgetary projections of the convergence programme. The convergence programme describes already adopted reforms of tax and pension systems. The 2006 budget as well as the 2006-2008 budgetary framework foresee significant increases in the expenditure on education and research and development and thus reflect priorities set in the National Reform Programme.

In view of the above assessment, the Council notes that the programme follows the deficit adjustment path set by the Council recommendations under Article 104(7). In the light of these recommendations, the Council is of the opinion that Slovakia should:

- (i) strengthen, in the context of strong growth outcome and prospects, the effort in the structural budgetary adjustment, in order to speed up the attainment of the MTO; and
- (ii) reinforce the binding character of the medium-term expenditure ceilings for central government.

Comparison of key macroeconomic and budgetary projections ⁽¹⁾

		2004	2005	2006	2007	2008
Real GDP (% change)	CP Dec 2005	5,5	5,1	5,4	6,1	5,6
	COM Nov 2005	5,5	5,1	5,5	6,3	n.a.
	CP Nov 2004	5,0	4,5	5,1	5,4	n.a.
HICP inflation (%)	CP Dec 2005	7,5	2,9	3,6	2,0	2,0
	COM Nov 2005	7,5	2,9	3,6	2,1	n.a.
	CP Nov 2004	7,8	3,3	2,8	2,5	n.a.
Output gap (% of potential GDP)	CP Dec 2005 ⁽²⁾	- 1,9	- 1,6	- 1,1	0,1	0,8
	COM Nov 2005 ⁽⁶⁾	- 1,5	- 1,3	- 0,9	0,2	n.a.
	CP Nov 2004 ⁽²⁾	0,4	0,2	0,4	0,9	n.a.

		2004	2005	2006	2007	2008
General government balance (% of GDP)	CP Dec 2005 ⁽²⁾	- 3,2	- 4,1	- 2,9	- 1,6	- 1,3
	COM Nov 2005	- 3,1	- 4,1	- 3,0	- 2,5	n.a.
	CP Nov 2004	- 3,8	- 3,4	- 2,9	- 1,9	n.a.
Primary balance (% of GDP)	CP Dec 2005	- 1,0	- 2,3	- 1,0	0,4	0,7
	COM Nov 2005	- 0,9	- 1,9	- 0,8	- 0,2	n.a.
	CP Nov 2004	- 1,5	- 1,0	- 0,6	0,4	n.a.
Cyclically-adjusted balance (% of GDP)	CP Dec 2005 ⁽²⁾	- 2,6	- 3,6	- 2,6	- 1,6	- 1,5
	COM Nov 2005	- 2,7	- 3,8	- 2,7	- 2,5	n.a.
	CP Nov 2004 ⁽²⁾	n.a.	n.a.	n.a.	n.a.	n.a.
Structural balance ⁽³⁾ (% of GDP)	CP Dec 2005 ⁽⁴⁾	- 2,6	- 2,8	- 2,6	- 1,7	- 1,5
	COM Nov 2005 ⁽⁵⁾	- 2,7	- 3,0	- 2,7	- 2,5	n.a.
	CP Nov 2004	n.a.	n.a.	n.a.	n.a.	n.a.
Government gross debt ⁽⁷⁾ (% of GDP)	CP Dec 2005	42,6	33,7	35,5	35,2	36,2
	COM Nov 2005	42,6	36,7	38,2	38,5	n.a.
	CP Nov 2004	43,0	44,2	45,3	45,5	n.a.

Notes:

- (¹) The budgetary projections exclude the impact of the Eurostat decision of 2 March 2004 on the classification of funded pension schemes, which needs to be implemented by the time of the spring 2007 notification. Including this impact, the general government balance according to the updated programme would be -3,2 % of GDP in 2004, -4,9 % in 2005, -4,2 % in 2006, -3,0 % in 2007 and -2,7 % in 2008.
- (²) Commission services calculations on the basis of the information in the programme.
- (³) Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.
- (⁴) One-off and other temporary measures taken from the programme (0,8 % of GDP in 2005, deficit-increasing and 0,1 % in 2007, deficit-reducing).
- (⁵) One-off and other temporary measures taken from the Commission services' autumn 2005 forecast (0,8 % of GDP in 2005, deficit-increasing).
- (⁶) Based on estimated potential growth of 4,9 %, 4,8 %, 5,1 % and 5,1 % respectively in the period 2004-2007.
- (⁷) The debt projections (in contrast with deficit projections) in the programme have been prepared taking into account the Eurostat decision of 2 March 2004 on the classification of funded pension schemes.

Source:

Convergence programme (CP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations

COUNCIL OPINION
of 24 January 2006
on the updated convergence programme of Sweden, 2005-2008

(2006/C 55/06)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, 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 24 January 2006 the Council examined the updated convergence programme of Sweden, which covers the period 2005 to 2008.
- (2) Annual real GDP growth in Sweden has been slightly below 3 % on average over the last decade. This growth performance has been characterised by strong productivity developments and positive net export contributions. However, over the last few years employment growth has been weak and employment rates reduced while unemployment has increased. The macroeconomic scenario underlying the programme envisages that real GDP growth will rise from 2,4 % in 2005 to 3,1 % in 2006 and average 2,5 % over the following two years of the programme period. In the first two years of the programme period the growth outlook implies an improvement of cyclical conditions, which then are projected to stay broadly neutral. Assessed against currently available information, this scenario appears to be plausible. The programme's projections for inflation appear realistic.
- (3) On 18 January 2005, in its opinion the Council endorsed the budgetary strategy presented in the 2004 update of the convergence programme of Sweden. Regarding the 2005 budgetary implementation, the 2004 update targeted a 0,6 % of GDP general government surplus for 2005 while the current update forecasts a 1,6 % surplus despite a downward revision of 2005 growth. Overall, revenues have come in better than expected, partially explained by some one-off corporate taxes, but also expenditures have developed in a contained way.
- (4) The programme broadly follows the model structure and data provision requirements for stability and convergence programmes specified in the new code of conduct ⁽²⁾.
- (5) The budgetary framework is geared at maintaining sound public finances in the context of full employment and sustainable growth. To this end it includes a general government surplus objective of 2 % of GDP on average over the cycle, multi-annual nominal ceilings for central government expenditures and a balanced budget balance requirement for local governments. This update foresees general government surpluses of 1,6 % in 2005, 0,9 % in 2006, 1,2 % in 2007 and 1,7 % in the final year, 2008. Both expenditure and revenue ratios are on a gradually declining trend over the projection period. The decline in the revenue ratio is front-loaded to 2006 due to tax cuts while the decline in the expenditure ratio is back-loaded, taking place against a forecast improvement in the labour market. Compared to the previous update, the current update broadly confirms a similar planned fiscal adjustment in the context of a more favourable macroeconomic scenario.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

⁽²⁾ The programme has gaps in the compulsory data and does not provide all optional data prescribed by the new code of conduct (especially compensation of employees is missing).

- (6) The programme presents the national surplus objective of 2 % on average over the cycle as the guiding medium-term reference in the update strategy. It is also the cornerstone in the Swedish national budgetary rule-based framework. Therefore, 2 % of GDP can be regarded as the programme's medium-term objective (MTO) as it is in line with the principles for MTOs specified in the Stability and Growth Pact and the code of conduct. Over the programme period, the structural balance calculated according to the commonly agreed methodology is planned to improve from about 1 % of GDP in 2006 to about 1,5-2 % of GDP in 2008.
- (7) As the MTO is more demanding than the minimum benchmark (estimated at a deficit of about 0,5 % of GDP), its achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. As regards appropriateness, the programme's MTO is significantly more demanding than implied by the debt ratio and the average potential output growth. However, its achievement remains central for ensuring long-term sustainability.
- (8) The budgetary outcome in 2005 is likely to be better than projected in the programme. In particular, recent cash-based information on tax revenues and quarterly national accounts support this assessment.
- (9) In view of this risk assessment, the budgetary stance outlined in the programme seems broadly sufficient to ensure that the programme's MTO will be reached by the end of the programme period. Nevertheless, the 2006 budget makes the budget position diverge from the MTO by roughly 1 % of GDP in 2006 and 2007, putting at risk the achievement of the MTO within the programme period. Moreover, notwithstanding the fact that inflationary pressures are expected to remain subdued, there is a concern that the expansionary fiscal stance in 2006 may not be fully appropriate in the sense that this period may qualify as 'good times'. However, as stated above the programme's MTO is significantly more demanding than required by the Stability and Growth Pact. In particular, over the whole programme period there is a sufficient safety margin against breaching the 3 % of GDP threshold for the deficit with normal cyclical fluctuations. This assessment would also seem to be robust to the reclassification in 2007 of the second-pillar funded pension schemes outside the general government accounts, as required by Eurostat.
- (10) The debt ratio is estimated to have reached about 51 % of GDP in 2005, well below the 60 % of GDP Treaty reference value. The programme projects the debt ratio to decline to 46 % of GDP by 2008.
- (11) With regard to the sustainability of public finances, Sweden appears to be at low risk on grounds of the projected budgetary costs of ageing populations. The level of gross debt is currently comfortably below the 60 % reference value and is projected to remain below the reference value throughout most of the programme period. The Swedish strategy of putting sustainability concerns at the heart of fiscal policy making, including the pension system reform which contains pension expenditure and involves accumulation of assets, contributes positively to the outlook for the public finances. The currently favourable budgetary position contributes to limiting the projected budgetary impact of ageing populations while the planned consolidation towards the 2 % MTO at the end of the programme period contributes to improve sustainability ⁽¹⁾.
- (12) The envisaged measures in the area of public finances are broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008. While a sufficiently strong medium-term budgetary position is planned to be maintained, in line with the pact, the departure from the ambitious MTO in 2006-2007, as projected in the budget, may risk being pro-cyclical and also put at risk the achievement of the MTO at the end of the programme period.

⁽¹⁾ Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services, to be published at the website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

- (13) Sweden's National Reform Programme (NRP), submitted on 21 October 2005 within the context of the renewed Lisbon strategy for growth and jobs, puts great emphasis on sustainable development and emphasises that the achievement and maintenance of high labour market participation and hours worked are important challenges, and will have a significant impact on public finances in the long term. The NRP incorporates the 2006 budget on which the programme update is also based and in this sense the two documents are consistent.

The Council is of the opinion that, overall, the budgetary position is sound and the budgetary strategy provides an example of fiscal policies conducted in compliance with the pact.

Comparison of key macroeconomic and budgetary projections ⁽¹⁾

		2004	2005	2006	2007	2008
Real GDP (% change)	CP Nov 2005	3,6	2,4	3,1	2,8	2,3
	COM Nov 2005	3,6	2,5	3,0	2,8	n.a.
	CP Nov 2004	3,5	3,0	2,5	2,3	n.a.
HICP inflation (%)	CP Nov 2005	0,9	1,5	1,5	2,0	2,0
	COM Nov 2005	1,0	0,7	1,4	1,8	n.a.
	CP Nov 2004	1,3	1,5	n.a.	n.a.	n.a.
Output gap (% of potential GDP)	CP Nov 2005 ⁽²⁾	- 0,3	- 0,4	- 0,1	0,1	- 0,1
	COM Nov 2005 ⁽⁶⁾	- 0,3	- 0,4	- 0,1	0,0	n.a.
	CP Nov 2004 ⁽²⁾	- 0,1	0,1	- 0,2	- 0,4	n.a.
General government balance (% of GDP)	CP Nov 2005	1,6	1,6	0,9	1,2	1,7
	COM Nov 2005	1,6	1,4	0,8	1,1	n.a.
	CP Nov 2004	0,7	0,6	0,4	0,9	n.a.
Primary balance (% of GDP)	CP Nov 2005	3,2	3,2	2,5	3,0	3,6
	COM Nov 2005	3,4	3,2	2,6	2,9	n.a.
	CP Nov 2004	2,8	2,8	2,7	3,3	n.a.
Cyclically-adjusted balance (% of GDP)	CP Nov 2005 ⁽²⁾	1,7	1,8	0,9	1,1	1,7
	COM Nov 2005	1,8	1,6	0,9	1,1	n.a.
	CP Nov 2004 ⁽²⁾	0,8	0,5	0,5	1,2	n.a.
Structural balance ⁽³⁾ (% of GDP)	CP Nov 2005 ⁽⁴⁾	1,1	1,6	0,9	1,1	1,7
	COM Nov 2005 ⁽⁵⁾	1,2	1,4	0,9	1,1	n.a.
	CP Nov 2004	n.a.	n.a.	n.a.	n.a.	n.a.

		2004	2005	2006	2007	2008
Government gross debt (% of GDP)	CP Nov 2005	51,1	50,9	49,4	47,8	46,0
	COM Nov 2005	51,1	50,6	49,4	47,8	n.a.
	CP Nov 2004	51,7	50,5	50,0	49,0	n.a.

Notes:

- (¹) The budgetary projections exclude the impact of the Eurostat decision of 2 March 2004 on the classification of funded pension schemes, which needs to be implemented by the time of the spring 2007 notification. Including this impact, the general government balance would be 0,6 % in 2005, -0,1 % in 2006, 0,2 % in 2007 and 0,7 % in 2008, while government gross debt would be 51,4 % in 2005, 49,9 % in 2006, 48,3 % in 2007 and 46,5 % in 2008.
- (²) Commission services calculations on the basis of the information in the programme.
- (³) Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.
- (⁴) The programme provides no explicit information on one-off and other temporary measures. However, the Swedish Ministry of Finance has provided an estimate of one-offs of 0,6 % of GDP in 2004 and 0,2 % of GDP in 2005.
- (⁵) One-off and other temporary measures taken from the Commission services' autumn 2005 forecast (0,6 % of GDP in 2004 and 0,2 % of GDP in 2005; deficit-reducing).
- (⁶) Based on estimated potential growth of 2,5 %, 2,6 %, 2,8 % and 2,7 % respectively in the period 2004-2007.

Source:

Convergence programme (CP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations

COUNCIL OPINION
of 14 February 2006
on the updated stability programme of Belgium, 2005-2009
(2006/C 55/07)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

- (1) On 14 February 2006 the Council examined the updated stability programme of Belgium, which covers the period 2005 to 2009.
- (2) In Belgium, real annual GDP growth over the last decade has been close to 2 % on average, slightly above the euro area average. However, the employment rate is low (around 60 %) and unemployment is characterised by significant regional disparities and a high level of long-term unemployment. Since 2000, Belgium has maintained a budgetary position at or around balance.
- (3) In its opinion of 17 February 2005, the Council endorsed the budgetary strategy presented in the 2004 update of the stability programme of Belgium.
- (4) As regards budgetary implementation in 2005, the Commission services' autumn 2005 forecast projects a balanced general government budget for 2005, which is in line with the target in the previous update of the stability programme, despite significantly lower GDP growth. However, the statistical recording of some one-off transactions still has to be clarified with Eurostat and might lead to a large one-off increase in the 2005 deficit outcome ⁽²⁾ thus having no negative impact on the budgetary outcome in the 2006-2009 period.
- (5) The 2005 update of the programme broadly follows the model structure and data provision requirements for stability and convergence programmes specified in the new code of conduct ⁽³⁾.
- (6) The macroeconomic scenario underlying the programme envisages that real GDP growth will pick up from 1,4 % in 2005 to 2,2 % on average over the rest of the programme period. Assessed against currently available information, this scenario appears to be based on plausible growth assumptions. The programme's projections for inflation also appear realistic.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

⁽²⁾ For the time being, the reorganisation of the Belgian railways, which increased government debt by 2,5 % of GDP, has been treated without direct impact on the government deficit, while the securitisation of tax arrears in 2005 (0,2 % of GDP) has been recorded as deficit reducing.

⁽³⁾ The programme does not have a separate section on institutional features of public finances, but some information on these issues is provided in other sections. It also has gaps in the compulsory data and does not provide all optional data prescribed by the new code of conduct.

- (7) The budgetary strategy outlined in the programme aims at keeping a balanced general government position until 2006 and at building up surpluses afterwards (up to 0,7 % of GDP by 2009), in order to maintain the debt ratio on a downward trend. After a gradual decline from 7,2 % of GDP in 2001, the primary surplus should stabilise just above 4 % of GDP from 2007 onwards. The programme foresees a decrease in the government revenue (mainly as a result of a reduction of the tax burden on labour), but this is more than compensated by a cut in the expenditure ratio (mainly interest expenditure). The new update largely confirms the budgetary strategy outlined in the previous programme against a broadly similar growth outlook.
- (8) Over the programme period, the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) calculated according to the commonly agreed methodology is planned to improve by almost 1 % of GDP. The authorities set the medium-term objective (MTO) for the budgetary position at a structural surplus of 0,5 % of GDP and aim at achieving this position by 2007. As the MTO is more demanding than the minimum benchmark (estimated at a deficit of around 1 % of GDP), its achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. The MTO can be considered appropriate under the current assessment, as it lies within the range indicated for euro area and ERM II Member States in the Stability and Growth Pact and the code of conduct and is more demanding than implied by the debt ratio and average potential output growth in the long term.
- (9) The budgetary outcome is not without risk and could thus be worse than projected in the programme, especially in 2006 and 2007. While the macroeconomic scenario can be considered plausible and the government has recently introduced new measures to better control health-care expenditure, for 2006, the tax revenue envisaged in the programme could be slightly optimistic. As to the expenditure projections, though based on plausible macroeconomic assumptions, they do not seem to provide a buffer against possible adverse developments. For 2007 the programme does not explain how it will compensate for the expiration of one-off and other temporary measures. However, it should be acknowledged that the Belgian authorities have in the recent past demonstrated a strong commitment to achieving their balanced budget targets.
- (10) In view of this risk assessment, the budgetary stance in the programme may not be sufficient to ensure that the programme's MTO is achieved by 2007 as envisaged in the programme. However, as stated above, the programme's MTO is more demanding than required by the Stability and Growth Pact. The budgetary strategy seems sufficient to achieve a budgetary position in structural terms that can be considered as appropriate under the Pact throughout the programme. In addition, the budgetary stance in the programme seems to provide a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations throughout the programme. As for the adjustment path towards reaching the MTO, although the average annual improvement in the structural balance is small, the pace of adjustment towards the ambitious MTO can be considered as broadly appropriate, except in 2006 when the structural balance is planned to deteriorate by 0,4 % of GDP.
- (11) The debt ratio is estimated to have reached 94 % of GDP at the end of 2005, far above the 60 % of GDP Treaty reference value. The programme projects the debt ratio to decline by 16 percentage points of GDP over the programme period, to less than 80 % of GDP. The evolution of the debt ratio might be less favourable than projected in the programme if downside risks materialise. Nevertheless, the debt ratio seems to be sufficiently diminishing towards the reference value and approaches it at a rapid pace. With regard to the sustainability of public finances, Belgium appears to be at medium risk on grounds of the projected budgetary costs of ageing populations and considering the need to sustain high primary surpluses for a prolonged period of time ⁽¹⁾. The current level of gross debt, while declining, remains well above the reference value and the steady reduction of

⁽¹⁾ Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services (http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm).

the debt ratio foreseen in the update is necessary. The Belgian strategy of putting longer-term concerns at the heart of fiscal policy, including by reducing debt, will undoubtedly alleviate sustainability risks and the 'ageing fund law' reinforces the political commitment by setting legally binding budgetary targets. Furthermore, recent measures aimed at increasing the effective retirement age and the employment ratio should contribute positively to sustainability. However, the current budgetary position may not be sufficient to cover fully the substantial increase in expenditure due to ageing populations, underlining the importance of maintaining large primary surpluses in the coming years.

- (12) The envisaged measures in the area of public finances are broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008. In particular, the debt ratio is being reduced at a satisfactory pace and some reforms are being undertaken to improve the sustainability of the social security system. However, the deterioration of the structural balance in 2006 is not fully in line with the integrated guideline that calls for taking all necessary corrective measures to achieve the MTO.
- (13) The National Reform Programme (NRP) of Belgium, submitted on 26 October 2005 in the context of the renewed Lisbon strategy for growth and jobs, identifies the following challenges with significant implications for public finances: (i) to support employment by reducing the tax burden on labour, and (ii) to keep the general government budget close to balance and to start building up surpluses from 2007 onwards, in order to maintain the debt ratio on a downward trend. However, the budgetary implications of the actions outlined in the NRP are not sufficiently specified in the budgetary projections of the stability programme. Measures in the area of public finances envisaged in the stability programme seem to be broadly in line with the actions foreseen in the NRP.

In view of the above assessment, the Council is of the opinion that, overall, the budgetary position is sound and the continued debt reduction from its still high level envisaged in the programme provides an example of fiscal policies conducted in compliance with the Pact. The reliance on one-off measures at the beginning of the period underlines the need for front-loaded structural consolidation. The Council invites Belgium to consider measures to avoid a deterioration of the structural balance in 2006 and to implement the required measures to reach the ambitious budgetary targets in subsequent years.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008	2009
Real GDP (% change)	SP Dec 2005	2,6	1,4	2,2	2,1	2,3	2,2
	COM Nov 2005	2,6	1,4	2,1	2,0	n.a.	n.a.
	<i>SP Dec 2004</i>	2,4	2,5	2,5	2,1	2,0	n.a.
HICP inflation (%)	SP Dec 2005	1,9	2,9	2,8	2,0	1,9	1,7
	COM Nov 2005	1,9	2,7	2,6	1,9	n.a.	n.a.
	<i>SP Dec 2004</i>	1,9	2,0	1,8	1,8	1,8	n.a.
Output gap (% of potential GDP)	SP Dec 2005 ⁽¹⁾	- 0,2	- 0,8	- 0,6	- 0,6	- 0,5	- 0,4
	COM Nov 2005 ⁽²⁾	- 0,1	- 0,8	- 0,8	- 1,0	n.a.	n.a.
	<i>SP Dec 2004 ⁽¹⁾</i>	- 0,8	- 0,5	- 0,2	- 0,4	- 0,5	n.a.
General government balance (% of GDP)	SP Dec 2005	0,0	0,0	0,0	0,3	0,5	0,7
	COM Nov 2005	0,0	0,0	- 0,3	- 0,5	n.a.	n.a.
	<i>SP Dec 2004</i>	0,0	0,0	0,0	0,3	0,6	n.a.

		2004	2005	2006	2007	2008	2009
Primary balance (% of GDP)	SP Dec 2005	4,8	4,3	4,1	4,2	4,1	4,1
	COM Nov 2005	4,8	4,4	3,8	3,4	n.a.	n.a.
	<i>SP Dec 2004</i>	4,9	4,5	4,4	4,5	4,7	<i>n.a.</i>
Cyclically-adjusted balance (% of GDP)	SP Dec 2005 ⁽¹⁾	0,1	0,4	0,3	0,6	0,8	0,9
	COM Nov 2005	0,1	0,4	0,1	0,0	n.a.	n.a.
	<i>SP Dec 2004 ⁽¹⁾</i>	<i>0,5</i>	<i>0,3</i>	<i>0,1</i>	<i>0,5</i>	<i>0,9</i>	<i>n.a.</i>
Structural balance ⁽³⁾ (% of GDP)	SP Dec 2005 ⁽⁴⁾	n.a.	0,0	- 0,3	0,4	0,7	0,9
	COM Nov 2005 ⁽⁵⁾	- 0,6	0,0	- 0,4	0,0	n.a.	n.a.
	<i>SP Dec 2004</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Government gross debt (% of GDP)	SP Dec 2005	94,7	94,3	90,7	87,0	83,0	79,1
	COM Nov 2005	96,2	94,9	91,1	88,1	n.a.	n.a.
	<i>SP Dec 2004</i>	<i>96,6</i>	<i>95,5</i>	<i>91,7</i>	<i>88,0</i>	<i>84,2</i>	<i>n.a.</i>

Notes:

- (¹) Commission services' calculations on the basis of the information in the programme.
(²) Based on potential growth of 2,0 %, 2,1 %, 2,1 % and 2,3 % respectively in the period 2004-2007.
(³) Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.
(⁴) One-off and other temporary measures taken from the programme (0,4 % of GDP in 2005 and 0,6 % in 2006; all deficit-reducing). The figures for the one-off measures from 2007 onwards (0,2 % in 2007, 0,1 % in 2008 and 0,0 % in 2009) were provided by the Belgian authorities after the submission of the programme with the caveat that they 'should be considered as assumptions and do not prejudice any decision by the Belgian authorities'.
(⁵) One-off and other temporary measures taken from the Commission services' autumn 2005 forecast (0,4 % of GDP in 2005 and 0,5 % in 2006; all deficit-reducing).

Source:

Stability programme (SP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations.

COUNCIL OPINION
of 14 February 2006
on the updated stability programme of Luxembourg, 2005-2008

(2006/C 55/08)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

- (1) On 14 February 2006 the Council examined the updated stability programme of Luxembourg, which covers the period 2005 to 2008.
- (2) The economic performance of Luxembourg has been remarkably bright in the last 20 years, with real GDP growing at 5,5 % a year on average and domestic employment by 3,25 %. Growth slowed down strongly in 2001 but recovered quickly, reaching 4,4 % in 2004. The financial position of the Luxembourg government has traditionally been very sound, with recurrent surpluses since the beginning of the 1990s and a very low public debt. However, due to the very strong rise in expenditure, these surpluses rapidly declined since the beginning of this decade and turned into a deficit in 2004.
- (3) In its opinion of 18 January 2005, the Council endorsed the budgetary strategy presented in the previous update of the stability programme, covering the period 2004-2007.
- (4) As regards budgetary implementation in 2005, the general government deficit is currently estimated at -2,3 % of GDP in the Commission services' autumn 2005 forecast as against a -1,0 % of GDP target set in the previous update of the stability programme. Roughly half of the observed deterioration is explained by a statistical revision, following the implementation by the Luxembourg authorities of the Eurostat decision on the statistical treatment of projects financed by PPPs. While government revenues, which were projected by the previous update to increase by 1,2 percentage points of GDP, actually rose by only 0,2 of a percentage point of GDP, in part due to large and unexpected VAT reimbursements, government expenditure increased by 1,4 percentage points of GDP (of which 0,8 of a percentage point is accounted for by public investment) instead of 0,8 of a percentage point of GDP as planned.
- (5) The programme broadly follows the model structure and data provision requirements for stability and convergence programmes specified in the new code of conduct ⁽²⁾.
- (6) According to the programme's macroeconomic scenario, real GDP growth should accelerate from an estimated 4,0 % in 2005 to 4,4 % in 2006 and to 4,9 % in both 2007 and 2008. Assessed against currently available information, this scenario appears to be based on broadly plausible growth assumptions, although slightly favourable in the outer years. The programme's projections for inflation also appear realistic, taking into account that the HICP in Luxembourg is extremely sensitive to changes in oil prices.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

⁽²⁾ It has gaps in the compulsory and optional data prescribed by the code.

- (7) The programme aims at bringing the general government deficit close to balance by the end of the programme period and thereby achieving a medium-term objective of -0,8 % of GDP in the same year. The time profile and the level of the primary balance are similar to those of the total balance, with an improvement from a -2,1 % of GDP primary deficit in 2005 to a 0,1 % primary surplus at the end of the period. The deficit reduction is expenditure-based as total government expenditure is projected to decline by 2,5 percentage points over the period while the revenues ratio should decrease by 0,4 of a percentage point of GDP. In order to cope with the unexpected deterioration in the government balance in 2005, the budgetary strategy has been adapted since the submission of the previous update, which was based on a less optimistic macroeconomic scenario and where the general government deficit, after improving from an estimated -1,4 % of GDP in 2004 to a projected -1,0 % in 2005, was planned to remain broadly at the same level in 2006 and 2007.
- (8) Over the programme period, the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) calculated according to the commonly agreed methodology is planned to improve on average by slightly more than 0,5 % of GDP per year. The adjustment is back-loaded, significantly increasing in 2007 in both nominal and structural terms. The programme sets the medium-term objective (MTO) for the budgetary position at a structural deficit of 0,8 % of GDP and aims at achieving this position by 2008. The programme's MTO is similar to the minimum benchmark aiming at providing a sufficient safety margin in order to guarantee that the 3 % threshold set for the general government deficit is not breached. Hence, its achievement should fulfil the aim of providing this safety margin. Moreover, the MTO can be considered as appropriate under the current assessment because it lies within the range indicated for euro area and ERM II Member States in the Stability and Growth Pact and the code of conduct and adequately reflects the debt ratio and average potential output growth in the long term.
- (9) The budgetary outcome could be worse than projected in the programme. First the macroeconomic projections presented by the programme might be slightly optimistic in the last years of the period covered. Moreover, the measures announced by the programme and aimed at continuing the adjustment effort in 2007 and 2008 are not yet specified. The achievement of the programme's budgetary objectives is conditional on the specification and proper implementation of these measures.
- (10) In view of this risk assessment, the budgetary stance in the programme seems sufficient to ensure that the MTO is achieved at the latest by 2008, as envisaged in the programme, on the condition that the measures announced for 2007 and 2008 are specified and properly implemented. According to the Commission services' calculations, the risk of breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations cannot be excluded in 2006. Although from 2007 onwards the planned structural deficit is lower than the minimum benchmark, the safety margin may also not be sufficient in 2007 unless the expenditure-reducing measures announced for that year are specified and implemented. The pace of the adjustment towards the MTO is broadly in line with the Stability and Growth Pact, which specifies that, for euro area and ERM II Member States, the annual improvement in the structural balance should be 0,5 % of GDP as a benchmark. However, the improvement in the structural deficit planned by the programme only amounts to 0,3 of a percentage point of GDP in 2006, despite favourable overall economic conditions.
- (11) The general government debt is estimated at 6,4 % of GDP in 2005. It is projected in the programme to rise to 10,2 % of GDP in 2008, with the main part of this increase occurring in 2006.
- (12) With regard to the sustainability of public finances, Luxembourg appears to be at medium risk on grounds of the projected budgetary costs of ageing populations⁽¹⁾. The current level of debt is certainly very low and the planned consolidation over the medium term should contribute to partly alleviating the risk to public finance sustainability. However, Luxembourg has experienced, over the last two decades, a period of exceptionally strong employment growth which will progressively translate into a similar increase in the number of pensioners and into a large increase in pension expenditure. While it contributes significantly to public finance sustainability, the current size of pension fund assets will not be sufficient and, as recognised by the programme, some changes in the pension schemes will prove necessary at some point to contain future increase in public expenditure and reduce the risk to long-term sustainability.

⁽¹⁾ Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services (http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm).

- (13) The programme's strategy in the area of public finances is broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008, in particular with the integrated guideline on securing economic stability by maintaining the medium-term budgetary objective over the economic cycle. As long as this objective has not been achieved, the government is committed to taking all the necessary corrective measures in line with the Stability and Growth Pact and the integrated guideline on safeguarding economic sustainability in view of the projected costs of ageing population.
- (14) The National Reform Programme of Luxembourg, submitted on 17 November 2005, identifies the following challenges with significant implications for public finances: (i) securing economic stability, and (ii) safeguarding economic sustainability. It also identifies challenges in other areas that have a significant impact on public finances, especially the need to significantly increase public R&D. The budgetary implications of the actions outlined in the National Reform Programme are reflected in the budgetary projections of the stability programme and the measures in the area of public finances envisaged in the stability programme are in line with the actions foreseen in the National Reform Programme.

While the global strategy of deficit reduction through expenditure restraint presented in the programme is commendable, the Council is of the opinion that the Luxembourg authorities should:

- strengthen the effort of budgetary adjustment in 2006 and identify and implement the necessary measures for 2007 and 2008, and
- improve long-term sustainability, in particular by containing increases in public expenditure through reform in the pension system.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008
Real GDP (% change)	SP Dec 2005	4,4	4,0	4,4	4,9	4,9
	COM Nov 2005	4,5	4,2	4,4	4,5	n.a.
	SP Dec 2004	4,4	3,8	3,3	4,3	n.a.
HICP inflation (%)	SP Dec 2005	3,2	3,7	2,6	2,0	1,8
	COM Nov 2005	3,2	4,1	4,4	2,2	n.a.
	SP Dec 2004	2,6	3,2	1,5	1,7	n.a.
Output gap (% of potential GDP)	SP Dec 2005 ⁽¹⁾	- 1,7	- 1,7	- 1,3	- 0,7	- 0,6
	COM Nov 2005 ⁽²⁾	- 1,8	- 1,6	- 1,3	- 1,2	n.a.
	SP Dec 2004 ⁽¹⁾	- 1,2	- 2,2	- 3,8	- 5,0	n.a.
General government balance (% of GDP)	SP Dec 2005	- 1,2	- 2,3	- 1,8	- 1,0	- 0,2
	COM Nov 2005	- 1,2	- 2,3	- 2,0	- 2,2	n.a.
	SP Dec 2004	- 1,4	- 1,0	- 0,9	- 1,0	n.a.
Primary balance (% of GDP)	SP Dec 2005	- 0,9	- 2,1	- 1,7	- 0,7	0,1
	COM Nov 2005	- 0,9	- 2,1	- 1,8	- 2,0	n.a.
	SP Dec 2004	- 1,2	- 0,9	- 0,8	- 0,9	n.a.

		2004	2005	2006	2007	2008
Cyclically-adjusted balance= Structural balance ⁽³⁾ (% of GDP)	SP Dec 2005 ⁽¹⁾	– 0,3	– 1,5	– 1,2	– 0,6	0,1
	COM Nov 2005	– 0,4	– 1,5	– 1,4	– 1,6	n.a.
	SP Dec 2004 ⁽¹⁾	– 0,7	0,3	1,4	2,0	n.a.
Government gross debt (% of GDP)	SP Dec 2005	6,6	6,4	9,6	9,9	10,2
	COM Nov 2005	6,6	6,8	7,1	7,3	n.a.
	SP Dec 2004	5,0	5,0	4,6	4,5	n.a.

Notes:

⁽¹⁾ Commission services' calculations on the basis of the information in the programme.

⁽²⁾ Based on estimated potential growth of 4,1 %, 4,0 %, 4,1 % and 4,3 % respectively in the period 2004-2007.

⁽³⁾ Since there are no one-off and other temporary measures specified in the programme, the cyclically-adjusted balance and the structural balance are identical.

Source:

Stability programme (SP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations.

COUNCIL OPINION
of 14 February 2006
on the updated stability programme of Austria, 2005-2008

(2006/C 55/09)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

- (1) On 14 February 2006 the Council examined the updated stability programme of Austria, which covers the period 2005 to 2008.
- (2) In the last decade, the Austrian economy grew on average by 2,2 % per year in real terms, matching the growth rate for the euro zone as a whole. While job creation has been less dynamic than in the euro area, Austria still enjoys one of the lowest unemployment rates in the whole EU. In budgetary terms, the country achieved a 'surplus or close-to-balance position' of public finance in 2001 and 2002. However, recent developments have been characterised by a relapse into deficit (1,2 % and 1 % of GDP in 2003 and 2004 respectively).
- (3) In its opinion of 18 January 2005 on the previous update of the stability programme, covering the period 2004-2008, the Council invited Austria to achieve a higher degree of front-loading in the overall budget consolidation path and to lay out in greater detail the specific measures through which a significant budget consolidation could be achieved in the last two years of the programme.
- (4) According to preliminary results, in 2005 the general government deficit amounted to 1,7 % of GDP, which was 0,2 and 0,1 of a percentage point lower than planned in the updated programme and than forecasted by the Commission services respectively. The better-than-planned result was due to more favourable-than-foreseen developments on the revenue side in spite of substantial tax cuts. The planned expenditure was also exceeded, however, by a smaller margin.
- (5) The programme broadly follows the model structure and data provision requirements for stability and convergence programmes specified in the new code of conduct ⁽²⁾.
- (6) According to the update, real GDP growth is expected to pick up from annual rates of 1,75 % in 2005 and 2006 to 2,5 % in 2008. Slower than previously assumed growth in 2005 and 2006, resulting in a widening of the negative output gap, is attributed to less buoyant international trade and higher oil prices. The pick up of economic activity in the outer years of the programme is expected on the back of growing investment and private consumption. Both the short-term and medium-term scenario is based on plausible growth assumptions. However, expectation of employment gains would appear somewhat optimistic. Inflation is expected to decline from 2,3 % in 2005 to 1,5 % in 2008, which seems plausible.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

⁽²⁾ It provides all compulsory and most optional data prescribed by the latter. A minor gap is the missing calculation of tax burden in Table 2.

- (7) The programme describes the budgetary strategy as 'three-pronged'. First, it aims at a balanced budget over the economic cycle. Second, the strategy foresees a decline in the tax burden to below 40 % of GDP by 2010. Third, it envisages raising potential growth by fostering investment in research, education and infrastructure. The update targets a decline in the general government deficit from 1,9 % of GDP in 2005 to 0 % in 2008 and an increase in the primary surplus from 1,1 % of GDP to 2,7 %. Since revenue is expected to fall by 0,9 of a percentage point of GDP over the period 2005-2008, the planned consolidation is going to rely on expenditure restraint, with the expenditure-to-GDP-ratio dropping by 2,8 percentage points. The bulk of the retrenchment on the expenditure side is to fall on the categories 'other primary expenditure' and 'social transfers'. Compared with the previous programme, the new update broadly confirms the planned adjustment against a less favourable macroeconomic scenario.
- (8) Over the programme period, the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) calculated according to the commonly agreed methodology based on the programme data is planned to improve on average by about 0,5 % of GDP per year. The programme sets the medium-term objective (MTO) for the budgetary position at 0 % of GDP in structural terms and aims at achieving this position by 2008. As regards appropriateness, the programme's MTO lies within the range indicated for euro area and ERM II Member States in the Stability and Growth Pact and the code of conduct and adequately reflects the debt ratio and average potential output growth in the long term.
- (9) The budgetary path projected for 2005 and 2006 seems plausible as it is based on legislated measures. However, the consolidation in 2007 and 2008 does not seem fully substantiated by the policy measures discussed in the update. Almost half of the expenditure restraint effort falls into the category 'other primary expenditure' and no information is provided in the programme on how exactly this is going to be done. On top of that, the credibility of the projected improvement relies largely on the effectiveness of the Austrian National Stability Pact. However, experience with the previous pact offers only limited help in determining whether the targets will be respected.
- (10) In view of this risk assessment, the budgetary stance in the programme may not be sufficient to ensure that the programme's MTO is achieved by 2008. However, the budgetary strategy, on the condition that it is implemented as presented in the programme, seems adequate to achieve a budgetary position in structural terms that can be considered as appropriate under the Pact by the end of the programme period. In addition, the budgetary stance in the programme seems to provide a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations throughout the programme period. The pace of the adjustment towards the programme's MTO implied by the programme is fully in line with the Stability and Growth Pact, which specifies that, for euro area and ERM II Member States, the annual improvement in the structural balance should be 0,5 % of GDP as a benchmark, and that the adjustment should be higher in good economic times and could be lower in bad economic times. While according to the Commission services this adjustment could be slower on annual average than foreseen in the programme, it would still be compatible with the requirements of the Pact, especially in the face of a negative output gap throughout the programme period.
- (11) The debt ratio is estimated to have reached 63,4 % of GDP in 2005, thus slightly above the 60 % of GDP Treaty reference value. The programme projects the debt ratio to decline by 3,9 percentage points over the programme period, thereby returning below the reference value. The risks to the projected evolution of the debt ratio appear to be broadly balanced. On the one hand, higher-than-targeted deficits could endanger adherence to the adjustment path presented in the programme. On the other hand, the update does not include potential privatisation receipts. In view of this risk assessment, the debt ratio seems to be sufficiently diminishing towards the reference value.

- (12) With regard to the sustainability of public finances, Austria appears to be at low risk on grounds of the projected budgetary costs of ageing populations ⁽¹⁾. The level of debt, currently above 60 % of GDP, is projected to fall and remain below the reference value up to 2050 on the assumption that the planned budgetary consolidation is implemented. Austria's recent pension reform should contribute significantly to the containment of future increases in public expenditure. However, the structural deficit in the government finances, if not corrected, could pose a risk to public finance sustainability. Implementing the planned consolidation of public finances over the medium term is therefore instrumental for reducing the risks to public finance sustainability.
- (13) The envisaged measures in the area of public finances are broadly consistent with the broad economic policy guidelines for the period 2005-2008. In particular, the measures are in line with the guidelines recommending safeguarding economic and fiscal sustainability and promoting an efficient allocation of resources geared towards higher growth and employment.
- (14) The National Reform Programme of Austria, submitted on 19 October 2005, identifies the achievement of sustainable public finances as one of the key challenges for Austria. However, it does not spell out any future measures envisaged towards meeting this challenge. In that respect, the stability programme is more detailed, providing information on some of the measures that are to contribute to the consolidation of public finances. The budgetary implications of the actions in the microeconomic and employment areas outlined in the National Reform Programme are broadly reflected in the budgetary projections of the stability programme. The latter outlines measures aimed at making the public administration and the health care system more efficient. It complements these with proposals for changes in the institutional features of the public finances, namely two comprehensive reforms of the legislation governing the budgetary process in Austria, which consist in the introduction of the medium-term budgetary framework from 2007 and shifting from input-dominated to objective-driven budgets from 2011. These measures are in line with the priorities laid out in the National Reform Programme.

In view of the above assessment, the Council welcomes the ambitious structural adjustment planned over the programme period. However, the Council invites Austria to make sure that the programme's MTO is achieved by the end of the update period by further specifying and implementing the necessary measures that will support the budgetary consolidation planned for the two final years of the programme.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008
Real GDP (% change)	SP Nov 2005	2,4	1,7	1,8	2,4	2,5
	COM Nov 2005	2,4	1,7	1,9	2,2	n.a.
	SP Nov 2004	1,9	2,5	2,5	2,2	2,4
HICP inflation (%)	SP Nov 2005	2,0	2,3	2,1	1,7	1,5
	COM Nov 2005	2,0	2,2	2,1	1,7	n.a.
	SP Nov 2004	2,1	1,8	1,4	1,5	1,6
Output gap (% of potential GDP)	SP Nov 2005 ⁽¹⁾	- 0,2	- 0,7	- 1,1	- 0,9	- 0,5
	COM Nov 2005 ⁽³⁾	- 0,2	- 0,7	- 1,0	- 0,9	n.a.
	SP Nov 2004 ⁽¹⁾	- 1,3	- 0,8	- 0,4	- 0,1	0,2

⁽¹⁾ Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services
(http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm).

		2004	2005	2006	2007	2008
General government balance (% of GDP)	SP Nov 2005	- 1,0	- 1,9	- 1,7	- 0,8	0,0
	COM Nov 2005 ⁽²⁾	- 1,0	- 1,8	- 1,8	- 1,4	n.a.
	SP Nov 2004	- 1,3	- 1,9	- 1,7	- 0,8	0,0
Primary balance (% of GDP)	SP Nov 2005	2,1	1,1	1,2	2,0	2,7
	COM Nov 2005	1,9	1,0	1,0	1,4	n.a.
	SP Nov 2004	1,9	1,2	1,3	2,2	2,9
Cyclically-adjusted balance = structural balance (% of GDP)	SP Nov 2005 ⁽¹⁾	- 0,9	- 1,6	- 1,2	- 0,4	0,2
	COM Nov 2005	- 0,9	- 1,5	- 1,3	- 1,0	n.a.
	SP Nov 2004 ⁽¹⁾	- 0,9	- 1,7	- 1,6	- 0,8	- 0,1
Government gross debt (% of GDP)	SP Nov 2005	63,6	63,4	63,1	61,6	59,5
	COM Nov 2005 ⁽²⁾	63,7	63,6	63,5	62,8	n.a.
	SP Nov 2004	64,2	63,6	63,1	61,6	59,1

Notes:

⁽¹⁾ Commission services' calculations on the basis of the information in the programme.

⁽²⁾ Commission services' autumn 2005 forecast projections for the deficit and debt ratios have been adjusted to be comparable with the projections in the stability programme by recalculating the ratios on the basis of the new GDP series.

⁽³⁾ Based on estimated potential growth of 1,9 %, 2,2 %, 2,2 % and 2,1 % respectively in the period 2004-2007.

Source:

Stability programme (SP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations.

COUNCIL OPINION
of 14 February 2006
on the updated convergence programme of Estonia, 2005-2009
(2006/C 55/10)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, 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 14 February 2006 the Council examined the updated convergence programme of Estonia, which covers the period 2005 to 2009.
- (2) After reaping early benefits from bold reform and stabilisation efforts by the mid-1990s, Estonia in the wake of the 1998 Russian crisis suffered a temporary setback with a slack in growth in 1999. Owing to the comprehensive structural reforms in the financial and enterprise sector which had increased the economy's responsiveness to market forces and its international openness, growth quickly resumed as from 2000. Over the past decade, real annual GDP growth has averaged about 6 %, by far outpacing the EU average of 1,7 %. A high external deficit, at 10,5 % of GDP in 2004, constitutes the major macroeconomic imbalance. Budgetary developments were marked by an overall prudent fiscal stance resulting in healthy fiscal surpluses.
- (3) In its opinion of 17 February 2005, the Council endorsed the budgetary strategy presented in the previous update of the convergence programme, covering the period 2004-2008. As regards budgetary implementation in 2005, the general government surplus for 2005 is estimated at 1,1 % of GDP in the Commission services' autumn 2005 forecast, against a target of a balanced budget set in the previous update of the convergence programme. Due to a combination of high growth, improvements in tax collection and lower than planned expenditure, the actual surplus for 2005 will turn out much stronger, at 2-2,5 % of GDP.
- (4) The updated programme broadly follows the model structure and data provision requirements for stability and convergence programmes specified in the new code of conduct ⁽²⁾.
- (5) The macroeconomic scenario underlying the programme envisages that real GDP growth will edge up from 6,5 % in 2005 to 6,6 % in 2006 and level off at 6,3 % on average over the rest of the programme period. Assessed against currently available information, this scenario appears to be based on markedly cautious growth assumptions. Based on Commission services' calculations on the basis of the programme according to the commonly agreed methodology, potential GDP growth is projected to remain relatively high but on a slightly declining trend in the medium term. Consequently, the cautious outlook for real GDP growth leads to a negative output gap throughout the

⁽¹⁾ OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:

http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

⁽²⁾ The programme provides most compulsory and optional data prescribed by the new code of conduct.

programme period, whereas the Commission services' autumn 2005 forecast shows a positive output gap for 2005 and 2006. The programme's inflation projections for 2006 also appear to be on the low side, taking into account the high sensitivity of the inflation rate to oil price developments. The programme's projection for 2007 is in line with the Commission forecast.

- (6) The medium-term budgetary framework in Estonia is geared towards maintaining sound public finances in the context of sustainable high growth and rising employment. The programme aims at the general government accounts to remain in balance from 2007, following surpluses of 0,3 % and 0,1 % of GDP in 2005 and 2006 respectively. The primary balance is only insignificantly higher because of a negligible interest burden. The projected general government surplus targets for 2005 and 2006 are slightly higher than in the previous update, but reflect only partly the better-than-expected outcome in 2005 at a surplus around 2,5 % of GDP, mainly owing to buoyant economic growth and improvements in tax collection. Both expenditure and revenue ratios are projected to decline gradually up to the programme horizon. Compared with the previous programme update, the December 2005 update broadly confirms the planned fiscal strategy of annually balanced budgets against a considerably more favourable macroeconomic scenario.
- (7) Over the programme period, the structural surplus (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) calculated according to the commonly agreed methodology is planned to decline on average by 0,1 % of GDP per year. The programme sets the medium-term objective (MTO) for the budgetary position at a balanced budget in structural terms, and plans to maintain a structural balance that satisfies the programme's MTO throughout the programme period. As the programme's MTO is more demanding than the minimum benchmark (estimated at a structural deficit of around 2 % of GDP), its achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. As regards appropriateness, the programme's MTO lies within the range indicated for euro area and ERM II Member States in the Stability and Growth Pact and the code of conduct, and is more demanding than implied by the debt ratio and average potential output growth in the long term.
- (8) Budgetary outcomes may prove significantly better than projected in the programme, even beyond 2005. The underlying economic outlook for 2006-2009 is markedly cautious. Moreover, Estonia's confirmed record of out-performing fiscal targets warrants the perception of the balance of risks being somewhat skewed to the positive side.
- (9) In view of this risk assessment, the budgetary strategy seems sufficient to achieve a budgetary position in structural terms that can be considered as appropriate under the Pact throughout the programme period. In addition, the budgetary stance in the programme provides a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations throughout the programme period. However, taking into account the likelihood of a better-than-projected outturn in 2005, a budgetary surplus no higher than 0,1 % of GDP in 2006 carries the risk of pro-cyclicality in 'good times'.
- (10) The debt ratio is estimated at 4,6 % of GDP at the end of 2005, well below the 60 % of GDP Treaty reference value and, indeed, the lowest in the EU. The programme projects the debt ratio to decline by 1,8 percentage points over the programme period.
- (11) With regard to the sustainability of public finances, Estonia appears to be at low risk on grounds of the projected budgetary costs of ageing populations⁽¹⁾. The level of gross debt is currently very low and is projected to remain below the 60 % reference value throughout the projection period. Estonia's strategy of putting sustainability concerns at the heart of fiscal policy making, including the pension system reform which involves the accumulation of assets, contributes positively to the outlook for the public finances. The current budgetary position in surplus contributes towards limiting the projected budgetary impact of an ageing population, and the medium-term budgetary plan of maintaining balanced budgets is consistent with low risks to public finance sustainability.

(¹) Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services
(http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm)

- (12) The envisaged measures in the area of public finances are broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008. In particular, large government surpluses in 2005 have indeed contributed to a significant narrowing of the external account deficit to below 10 % of GDP. A prudent fiscal policy is defined as a cornerstone of the Estonian policy mix over the programme period, notably with a view to supporting a further decline in the external deficit to sustainable levels. The update also presents measures to promote a growth- and employment-oriented allocation of resources, in particular by reducing the size of the public sector in the economy and by shifting the tax burden from direct to indirect taxation.
- (13) The National Reform Programme of Estonia, submitted on 15 October 2005 in the context of the renewed Lisbon strategy for growth and jobs, identifies the following challenges with significant implications for public finances: (i) sustainability of public finances; (ii) fiscal policy supportive to growth and jobs, and (iii) ensuring a stable macroeconomic environment. The budgetary implications of the actions outlined in the National Reform Programme are fully reflected in the budgetary projections of the convergence programme. The measures in the area of public finances envisaged in the convergence programme are in line with the actions foreseen in the National Reform Programme. In particular, the convergence programme outlines measures to complete the 2002 pension reform, to increase consumption and environment taxes while reducing taxes on labour, and to systematically shift budget resources towards investment, promotion of R&D and vocational training. The convergence programme complements these measures with changes in the institutional arrangements for public finances, namely by completing an IT-based budgeting system connecting all line ministries to the scrutiny of the Ministry of Finance, by further formalising the strategic planning process and by new legislation improving the financial management at local government level.

In view of the above assessment, the Council notes that overall the budgetary position is sound, and the budgetary strategy provides a good example of fiscal policy conducted in compliance with the Pact. The Council, in view of a budgetary outturn in 2005 significantly better than estimated in the programme and the need to avoid pro-cyclical policies, invites Estonia to aim for a higher budgetary surplus in 2006 and in the subsequent years in order to continue supporting the correction of the external imbalance.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008	2009
Real GDP (% change)	CP Dec 2005	7,8	6,5	6,6	6,3	6,3	6,3
	COM Nov 2005	7,8	8,4	7,2	7,4	n.a.	n.a.
	CP Nov 2004	5,6	5,9	6,0	6,0	6,0	n.a.
HICP inflation (%)	CP Dec 2005	3,0	3,5	2,6	2,6	2,7	2,7
	COM Nov 2005	3,0	4,1	3,3	2,6	n.a.	n.a.
	CP Dec 2004 ⁽¹⁾	3,3	3,2	2,5	2,8	2,8	n.a.
Output gap (% of potential GDP)	CP Dec 2005 ⁽²⁾	0,1	- 0,4	- 0,6	- 0,7	- 0,5	- 0,1
	COM Nov 2005 ⁽³⁾	- 0,2	0,5	0,1	- 0,1	n.a.	n.a.
	CP Dec 2004 ⁽²⁾	- 0,9	- 1,3	- 1,7	- 1,2	- 1,0	n.a.

		2004	2005	2006	2007	2008	2009
General government balance (% of GDP)	CP Dec 2005	1,7	0,3	0,1	0,0	0,0	0,0
	COM Nov 2005	1,7	1,1	0,6	0,4	n.a.	n.a.
	CP Dec 2004	1,0	0,0	0,0	0,0	0,0	0,0
Primary balance (% of GDP)	CP Dec 2005	1,9	0,5	0,3	0,2	0,1	0,1
	COM Nov 2005	1,9	1,3	0,8	0,5	n.a.	n.a.
	CP Dec 2004	1,3	0,2	0,2	0,2	0,1	n.a.
Cyclically-adjusted balance =Structural balance ⁽⁴⁾ (% of GDP)	CP Dec 2005	1,7	0,4	0,3	0,2	0,1	0,0
	COM Nov 2005	1,8	1,0	0,6	0,4	n.a.	n.a.
	CP Dec 2004	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Government gross debt (% of GDP)	CP Dec 2005	5,4	4,6	4,4	3,3	3,0	2,8
	COM Nov 2005	5,5	5,1	4,0	3,1	n.a.	n.a.
	CP Dec 2004	4,8	4,6	4,3	3,1	2,9	n.a.

Notes:

- (¹) The December 2004 update of the convergence programme discusses national CPI definition, not HICP. Discrepancies are negligible.
 (²) Commission services' calculations on the basis of the information in the programme.
 (³) Based on estimated potential growth of 7,2 %, 7,1 %, 6,7 % and 6,5 % respectively in the period 2004-2007.
 (⁴) Since there are no one-off and other temporary measures specified in the programme, the cyclically-adjusted balance and the structural balance are identical.

Source:

Convergence programme (CP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations.

COUNCIL OPINION
of 14 February 2006
on the updated convergence programme of Latvia, 2005-2008
(2006/C 55/11)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, 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 14 February 2006 the Council examined the updated convergence programme of Latvia, which covers the period 2005 to 2008.
- (2) Over the last decade, annual real GDP growth in Latvia has averaged over 6 %. This growth performance has been characterised by strong productivity developments and more recently also by employment growth. However, high external imbalances have left Latvia reliant on capital inflows, and the foreign debt-to-GDP ratio has risen. Inflation has picked up since mid-2003 and remains above 6 %, eroding the external competitiveness of the economy and posing a threat to growth. The macroeconomic scenario underlying the programme envisages that real GDP growth will ease from 8,4 % in 2005 to 7,2 % on average over the rest of the programme period. Assessed against currently available information, this scenario appears to be based on plausible growth assumptions. The programme's projections for inflation and the current account deficit appear to be on the low side.
- (3) The programme broadly follows the model structure for stability and convergence programmes specified in the new code of conduct ⁽²⁾.
- (4) The estimated general government deficit for 2005 in the present update is 1,5 % of GDP based on GDP growth of 8,4 %. This means a slightly lower deficit and a significantly better growth performance than foreseen in the previous programme (deficit of 1,6 % of GDP, growth of 6,7 %). The Commission services' autumn forecast estimated a deficit of 1,2 % of GDP based on GDP growth of 9,1 %. However, recent data on the execution of the government budget on a cash basis indicate that the outcome will be even better than put forward in the update and the Commission services' autumn forecast.
- (5) The Council Opinion on the previous update adopted on 8 March 2005 contained no policy invitations. However, it stated that the assessment of the consolidation path and of the appropriateness of the fiscal position was conditional on the favourable development of the external balance, on demand pressures in the economy, and on the moderation in inflation from its then recent peak.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

⁽²⁾ The programme has gaps in the optional data prescribed by the new code of conduct (in particular, data are not given for labour productivity per hours worked).

- (6) The updated programme aims at a modest reduction of the general government deficit. The update foresees a general government deficit of 1,5 % in 2005, 1,5 % in 2006, 1,4 % in 2007 and 1,3 % in the final year, 2008. The primary balance is set to decrease by 0,1 of a percentage point over the same period. Both revenue and expenditure to GDP ratios are planned to increase over the programme period (by 2,1 p.p. and 1,9 p.p. respectively). Public investment and not separately identified 'other' expenditure increase the most (from 2,3 % of GDP in 2005 to 3,3 % of GDP in 2008 and from 12,3 % of GDP to 13,8 % of GDP in 2008, respectively) and social transfers other than in kind decrease the most (from 9,3 % of GDP in 2005 to 8,9 % of GDP in 2008). Compared with the previous update, the November 2005 update broadly confirms the planned adjustment, although the growth outlook is considerably stronger.
- (7) Based on Commission services' calculations on the basis of the programme according to the commonly agreed methodology, the structural balance, i.e. the cyclically-adjusted budget balance net of one-off and other temporary measures, is planned to improve only slightly over the programme period (by about $\frac{3}{4}$ of a percentage point of GDP). The planned fiscal effort is back-loaded and concentrated in years in which the output gap is estimated to be negative. The update identifies a medium-term objective (MTO) for the budgetary position, as meant in the Stability and Growth Pact, of a structural deficit of 'around 1 % of GDP', and aims at achieving this position in the final year of the programme period. As the programme's MTO is more demanding than the minimum benchmark (estimated at a deficit of around 2 % of GDP), its achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. The programme's MTO lies within the range indicated for euro area and ERM II Member States in the Stability and Growth Pact and the code of conduct and adequately reflects the debt ratio and average potential output growth in the long term. However, taking into account the risks to sustainable economic convergence highlighted above, more ambitious budgetary positions than currently planned would seem appropriate.
- (8) The budgetary outcome could be worse than projected in the programme. Even though the growth forecasts and assumed tax elasticities underlying past budgets have usually proved cautious, the latter is no longer necessarily the case in the current programme as its assumed tax elasticities seem favourable. Furthermore, the programme refers to several (proposed) social policy measures which would increase such expenditure rather than decrease it, as projected in the programme.
- (9) In view of this risk assessment, the budgetary stance in the programme may not be sufficient to achieve a budgetary position in structural terms that can be considered as appropriate under the Pact by the end of the programme period. Also, as stated above, a more ambitious strategy than that set out in the programme would be desirable. The pace of the adjustment towards the programme's MTO implied by the programme is slower than the annual improvement of the structural balance of 0,5 % of GDP as a benchmark (higher in good economic times) as specified in the Stability and Growth Pact. In particular, a possible deterioration in the structural balance in 2006, implied by maintaining the 2006 target if the 2005 outcome is significantly stronger than expected, would correspond to significant fiscal easing in a context of continuing very high-demand pressures and relevant stability risks.
- (10) According to the Stability and Growth Pact, 'major structural reforms' with a verifiable impact on the long-term sustainability of the public finances should be taken into account when defining the adjustment path to the programme's MTO or for allowing a temporary deviation from the programme's MTO. The programme notes that the ongoing pension reform and introduction of a second pillar, in particular, will gradually reduce social security contributions in the general government balance compared to the 2004 level. The net cost of the pension reform is estimated in the programme at 0,25 % of GDP in 2005, rising progressively to 1,25 % of GDP in 2008. This could allow a temporary deviation from the required yearly adjustment path of 0,5 % of GDP towards the programme's MTO because the structural reforms on which it is based are sufficiently detailed in the programme and have a significant beneficial impact on the long-term sustainability of the public

finances. However, for 2006 the adjustment, also taking into account the structural reforms, is not fully in line with the Stability and Growth Pact. Nevertheless the safety margin against breaching the 3 % of GDP deficit reference value is ensured in all years of the programme. The suggestion above for a more demanding pace of adjustment towards the programme's MTO than implied by the programme seems feasible given that in the early programme years the estimated net cost of the pension reform is modest.

- (11) The debt ratio is estimated at 14,9 % of GDP in 2005, well below the 60 % of GDP Treaty reference value. The debt ratio is projected to decrease very slightly over the programme period, to 14,7 % of GDP in 2008, with the effects of persistent deficits substantially dampened by high nominal GDP growth.
- (12) With regard to the sustainability of public finances, Latvia appears to be at low risk on grounds of the projected budgetary costs of ageing populations ⁽¹⁾. The currently very low level of gross debt is projected to remain below the 60 % reference value throughout the 2005-2050 projection period. Latvia is implementing a pension reform launched in 1996 which contributes significantly to contain the budgetary impact of ageing populations.
- (13) The envisaged measures in the area of public finances are broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008. In particular, the convergence programme outlines measures to support jobs and growth by changes in the revenue and expenditure structure (especially a shift of the tax burden from direct to indirect taxation and a cut in transfers) and by making public investment a spending priority. Nonetheless, greater focus is needed on delivering the key objectives, such as containing inflation, addressing the external account imbalance and increasing activity rates by promoting an inclusive labour market.
- (14) The National Reform Programme of Latvia, submitted on 21 October 2005 in the context of the renewed Lisbon strategy for growth and jobs, identifies securing macroeconomic stability as the main challenge with implications for public finances, and to that end strengthening of fiscal discipline and budgetary planning procedures are to play the major role. The budgetary implications of the limited number of concrete reform measures specified in the National Reform Programme are reflected in the budgetary projections of the convergence programme. The public finance measures envisaged in the convergence programme are in line with the actions foreseen in the National Reform Programme. As mentioned above, the convergence programme outlines measures to support growth and employment by changes in the revenue and expenditure structure (especially a shift of the tax burden from direct to indirect taxation and a cut in transfers) and by making public investment a spending priority.

In view of the above assessment, and in the light of the need to ensure sustainable convergence, including by reducing the external imbalance and containing inflation, the Council invites Latvia to pursue more ambitious budgetary positions than currently planned, including for 2006, notably by bringing forward the attainment of the MTO set in the programme, maintaining it during the programme period and avoiding pro-cyclical fiscal policies in 'good times'.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008
Real GDP (% change)	CP Nov 2005	8,5	8,4	7,5	7,0	7,0
	COM Nov 2005	8,3	9,1	7,7	7,1	n.a.
	CP Dec 2004	8,1	6,7	6,5	6,5	n.a.

⁽¹⁾ Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services
(http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm).

		2004	2005	2006	2007	2008
HICP inflation (%)	CP Nov2005	6,2	6,9	5,6	4,3	3,5
	COM Nov 2005	6,2	6,8	6,0	4,8	n.a.
	CP Dec 2004	6,2	4,3	3,0	3,0	n.a.
Output gap (% of potential GDP)	CP Nov 2005 ⁽³⁾	0,5	0,8	0,4	- 0,5	- 1,1
	COM Nov 2005 ⁽⁵⁾	0,1	0,8	0,3	- 0,7	n.a.
	CP Dec. 2004 ⁽³⁾	1,6	0,9	0,0	- 0,5	n.a.
General government balance ⁽¹⁾ (% of GDP)	CP Nov. 2005	- 1,0	- 1,5	- 1,5	- 1,4	- 1,3
	COM Nov 2005	- 1,0	- 1,2	- 1,5	- 1,5	n.a.
	CP Dec.2004	- 1,7	- 1,6	- 1,5	- 1,4	n.a.
Primary balance (% of GDP)	CP Nov 2005	- 0,2	- 0,7	- 0,8	- 0,6	- 0,6
	COM Nov 2005	- 0,2	- 0,5	- 0,8	- 0,8	n.a.
	CP Dec 2004	- 0,9	- 0,8	- 0,8	- 0,7	n.a.
Cyclically-adjusted balance= Structural balance ⁽²⁾ (% of GDP)	CP Nov. 2005 ⁽³⁾	- 1,1	- 1,7	- 1,6	- 1,3	- 1,0
	COM Nov 2005 ⁽⁴⁾	- 1,0	- 1,5	- 1,6	- 1,3	n.a.
	CP Dec 2004	n.a.	n.a.	n.a.	n.a.	n.a.
Government gross debt (% of GDP)	CP Nov 2005	13,1	14,9	13,6	13,7	14,7
	COM Nov 2005	14,7	12,8	13,0	13,2	n.a.
	CP Dec 2004	14,2	1,5	15,8	15,0	n.a.

Notes:

⁽¹⁾ The net costs of the ongoing pension reform (introduction of a second pillar) are included in the deficit. The costs are estimated at 0,27 % of GDP in 2005, 0,37 % of GDP in 2006, 0,62 % of GDP in 2007 and 1,32 % of GDP in 2008.

⁽²⁾ Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures. The year-on-year improvement in the cyclically-adjusted balance foreseen in the programme, adjusting for the impact of the phased implementation of the pension reform, would be 0,2 % of GDP in 2006, 0,6 % in 2007 and 1,0 % in 2008, an average of 0,6 % in the period 2006-2008. Since there are no other one-off and temporary measures specified in the programme, the cyclically-adjusted balance and the structural balance are identical.

⁽³⁾ Commission services' calculations on the basis of the information in the programme.

⁽⁴⁾ There are no one-off and other temporary measures in the Commission services' forecast.

⁽⁵⁾ Based on estimated potential growth of 7,9 %, 8,3 %, 8,3 % and 8,2 % respectively in the period 2004-2007.

Source:

Convergence programme (CP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations.

COUNCIL OPINION
of 14 February 2006
on the updated convergence programme of Slovenia, 2005-2008

(2006/C 55/12)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, 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 14 February 2006 the Council examined the updated convergence programme of Slovenia, which covers the period 2005 to 2008.
- (2) Following a transition recession in the early nineties, the Slovene economy fully restored robust GDP growth averaging nearly 4 % over the last decade. By the end of 2005, inflationary pressures have been curbed and consumer price growth approached the EU average. The general government balance slipped in 1997 and has stayed negative since then, with deficits averaging 3 % of GDP on an ESA95 basis in the period 2000-2004.
- (3) In its opinion of 8 March 2005 on the previous update of the convergence programme, covering the period 2004-2007, the Council invited Slovenia to (i) seize all opportunities to accelerate the reduction of the general government deficit, and (ii) undertake further measures to improve the long-term sustainability of the public finances, including the reforms of the pension and health-care systems.
- (4) As regards budgetary implementation in 2005, the general government deficit for 2005 is estimated at 1,7 % of GDP in the Commission services' autumn 2005 forecast, against a target of 2,1 % of GDP set in the previous update of the convergence programme. The preliminary outcome is better than expected as a result of better revenue collection and a net 0,5 % GDP lower general government expenditure.
- (5) The updated programme broadly follows the model structure and data provision requirements for stability and convergence programmes specified in the new code of conduct ⁽²⁾.
- (6) The macroeconomic scenario underlying the programme envisages that real GDP will grow steadily at around 4 % beyond 2005. Assessed against currently available information, this scenario appears to be based on plausible growth assumptions. Cyclical conditions are likely to improve gradually; the negative output gap, estimated to have stood at 1 % of GDP in 2005, is forecast to close by the end of the period. The programme's projections for inflation also appear realistic. The programme lists a comprehensive set of socio-economic reforms aiming at enhancing the competitiveness of the Slovene industry, the modalities and implementation of which will be determined in the course of 2006. However, the projections consistently follow a no-policy change approach.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

⁽²⁾ The programme has gaps in the compulsory and optional data prescribed by the new code of conduct. In particular, compulsory data on labour productivity growth are not available. Also missing are certain optional data concerning labour market developments, sectoral balances and general government debt developments. The table on general government expenditure by function is not included.

- (7) The updated programme aims at creating conditions for a successful EMU integration while catching up with average EU income levels. The budgetary strategy is geared to keeping the general government deficit well below 3 % of GDP and targets to achieve the medium-term objective (MTO) for the budgetary position as meant in the Stability and Growth Pact by 2008. The programme announces tax reform measures, leading to a drop in the share of revenue as a percentage of GDP by 1,8 %, and measures on the expenditure side, resulting in a decline in the expenditure ratio by 2,5 % of GDP. The programme envisages a back-loaded consolidation path. In the beginning of the programme period, the general government deficit is expected to linger at 1,7 % of GDP and then slowly decrease to 1,4 % in 2007 and further to 1,0 % of GDP in 2008. Compared with the previous programme, the new update postpones the target of achieving a deficit of 1 % of GDP by one year against a modified fiscal policy orientation and a broadly unchanged macroeconomic scenario.
- (8) Over the programme period, the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) calculated according to the commonly agreed methodology is planned to improve by around 0,25 % of GDP. The programme sets the medium-term objective (MTO) for the budgetary position at a structural deficit of 1 % of GDP and aims at achieving this position by 2008. As the programme's MTO is more demanding than the minimum benchmark (estimated at a deficit of almost 2 % of GDP), its achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. The programme's MTO lies within the range indicated for euro area and ERM II Member States in the Stability and Growth Pact and the code of conduct and reflects the debt ratio and average potential output growth in the long term.
- (9) The risks to the budgetary projections in the programme appear broadly balanced. On the one hand, Slovenia has established a track record of better-than-projected budgetary outcomes in recent years, also supported by an effective budgetary mechanism of containing general government expenditures in response to an unexpected revenue shortfall. Furthermore, the assumptions on growth may turn out better than projected, should the structural reforms be implemented timely. However, the need for rigorously implementing policies to reduce government spending in order to offset the revenue loss due to the tax reform, and the recent decision to modify the indexation of pensions, may create a risk for the realisation of the targets. In particular, the high share of mandatory expenditure is rooted in the rigid regulatory framework, which still awaits political consensus to be restructured in a more flexible way.
- (10) In view of this risk assessment, the budgetary stance in the programme seems to provide a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations throughout the programme period. Furthermore, it seems sufficient to ensure that the programme's MTO is reached in 2008, as planned. As the structural deficit in 2005 is close to the MTO, the pace of the adjustment towards the programme's MTO implied by the programme is slower than the annual improvement of the structural balance of 0,5 % of GDP as a benchmark (higher in good economic times) as specified in the Stability and Growth Pact. A moderate adjustment in 2006 would have brought the budget in line with the MTO.
- (11) Gross public debt is estimated to have reached 29,0 % of GDP in 2005, well below the 60 % of GDP Treaty reference value. The programme projects a slight increase in the debt ratio in the next two years, peaking at 29,8 % in 2007. By 2008, the debt is forecast to fall to 29,4 % of GDP.
- (12) With regard to the sustainability of public finances, Slovenia appears to be at high risk on grounds of the projected budgetary costs of ageing populations⁽¹⁾. The relatively low debt ratio will contribute to limit the budgetary impact of ageing. However, Slovenia will still face a very large increase in government expenditure. Even though the 1999 pension reform has significantly alleviated future increase in expenditure, its effects have been partly offset by the modification of the indexation rule. Further changes in the pension schemes, as recognised by the programme, will prove necessary at

⁽¹⁾ Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services (http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm).

some point to contain future increase in government expenditure and reduce the risk to long-term sustainability. If no further measures are taken to relieve the pressures of age-related expenditure, the long-term sustainability of public finances will be undermined. A careful planning and timely adoption of measures are key in this regard.

- (13) The envisaged measures in the area of public finances are broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008. However, long-term sustainability of public finances is not explicitly identified as the policy priority. Measures remain vague and do not allow an assessment of the feasibility of the strategy in the longer term.
- (14) The National Reform Programme of Slovenia, submitted on 28 October 2005 in the context of the renewed Lisbon strategy for growth and jobs, identifies adoption of the euro in 2007 as the key priority. Geared to create conditions for a successful EMU integration, including by improving the quality of the public finances, the updated convergence programme bears a close link with the NRP's comprehensive list of policy measures. However, as a number of measures remain largely unspecified, the budgetary implications of the actions outlined in the National Reform Programme have not been included in the budgetary projections of the convergence programme.

In view of the above assessment, the Council notes that the programme aims at containing inflation close to the EU average while projecting a gradual fiscal adjustment path. The Council invites Slovenia to:

- i) make a more rapid progress towards achieving the programme's MTO, especially by implementing the measures underlying the planned reduction of the expenditure ratio as well as by frontloading the adjustment effort;
- ii) undertake measures to improve the long-term sustainability of the public finances, particularly in relation to the pension system.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008
Real GDP (% change)	CP Dec 2005	4,2	3,9	4,0	4,0	3,8
	COM Nov 2005	4,2	3,8	4,0	4,2	n.a.
	CP Jan 2005	4,0	3,8	3,9	4,0	n.a.
HICP inflation (%)	CP Dec 2005	3,6	2,5	2,5	2,4	2,4
	COM Nov 2005	3,6	2,6	2,5	2,5	n.a.
	CP Jan 2005	3,6	3,0	2,7	2,6	n.a.
Output gap (% of potential GDP)	CP Dec 2005 ⁽¹⁾	- 1,4	- 1,2	- 0,7	- 0,3	0,0
	COM Nov 2005 ⁽⁵⁾	- 1,2	- 0,9	- 0,5	0,2	n.a.
	CP Jan 2005 ⁽¹⁾	- 1,2	- 1,2	- 1,3	- 1,3	n.a.
General government balance (% of GDP)	CP Dec 2005	- 2,1	- 1,7	- 1,7	- 1,4	- 1,0
	COM Nov 2005	- 2,1	- 1,7	- 1,9	- 1,6	n.a.
	CP Jan 2005	- 2,1	- 2,1	- 1,8	- 1,1	n.a.
Primary balance (% of GDP)	CP Dec 2005	- 0,5	- 0,2	- 0,3	- 0,1	0,2
	COM Nov 2005	- 0,2	- 0,1	- 0,4	- 0,2	n.a.
	CP Jan 2005	- 0,3	- 0,4	- 0,2	0,4	n.a.

		2004	2005	2006	2007	2008
Cyclically-adjusted balance (% of GDP)	CP Dec 2005 ⁽¹⁾	– 1,4	– 1,2	– 1,4	– 1,3	– 1,0
	COM Nov 2005	– 1,5	– 1,5	– 1,7	– 1,7	n.a.
	CP Jan 2005 ⁽¹⁾	n.a.	n.a.	n.a.	n.a.	n.a.
Structural balance ⁽²⁾ (% of GDP)	CP Dec 2005 ⁽³⁾	– 1,4	– 1,2	– 1,4	– 1,3	– 1,0
	COM Nov 2005 ⁽⁴⁾	– 1,5	– 1,5	– 1,7	– 1,7	n.a.
	CP Jan 2005	n.a.	n.a.	n.a.	n.a.	n.a.
Government gross debt (% of GDP)	CP Dec 2005	29,5	29,0	29,6	29,8	29,4
	COM Nov 2005	29,8	29,3	29,5	29,2	n.a.
	CP Jan 2005	30,2	30,7	30,9	29,7	n.a.

Notes:

⁽¹⁾ Commission services' calculations on the basis of the information in the programme.

⁽²⁾ Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.

⁽³⁾ There are no one-off and other temporary measures in the programme.

⁽⁴⁾ There are no one-off and other temporary measures in the Commission services' forecast.

⁽⁵⁾ Based on estimated potential growth of 3,7 %, 3,5 %, 3,5 % and 3,5 % respectively in the period 2004-2007.

Source:

Convergence programme (CP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations.

COMMISSION

Euro exchange rates ⁽¹⁾**6 March 2006**

(2006/C 55/13)

1 euro =

Currency		Exchange rate	Currency		Exchange rate
USD	US dollar	1,2017	SIT	Slovenian tolar	239,51
JPY	Japanese yen	141,04	SKK	Slovak koruna	37,178
DKK	Danish krone	7,4622	TRY	Turkish lira	1,5748
GBP	Pound sterling	0,68550	AUD	Australian dollar	1,6169
SEK	Swedish krona	9,4543	CAD	Canadian dollar	1,3686
CHF	Swiss franc	1,5607	HKD	Hong Kong dollar	9,3247
ISK	Iceland króna	79,51	NZD	New Zealand dollar	1,8185
NOK	Norwegian krone	7,9790	SGD	Singapore dollar	1,9536
BGN	Bulgarian lev	1,9558	KRW	South Korean won	1 171,60
CYP	Cyprus pound	0,5747	ZAR	South African rand	7,4812
CZK	Czech koruna	28,546	CNY	Chinese yuan renminbi	9,6595
EEK	Estonian kroon	15,6466	HRK	Croatian kuna	7,3280
HUF	Hungarian forint	254,72	IDR	Indonesian rupiah	11 037,61
LTL	Lithuanian litas	3,4528	MYR	Malaysian ringgit	4,455
LVL	Latvian lats	0,6961	PHP	Philippine peso	61,323
MTL	Maltese lira	0,4293	RUB	Russian rouble	33,5830
PLN	Polish zloty	3,8177	THB	Thai baht	46,606
RON	Romanian leu	3,4813			

⁽¹⁾ Source: reference exchange rate published by the ECB.

Prior notification of a concentration
(Case COMP/M.4150 — Abbott/Guidant)

(2006/C 55/14)

(Text with EEA relevance)

1. On 23 February 2006, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 ⁽¹⁾ by which the undertaking Abbot Laboratories ('Abbott', USA) acquires within the meaning of Article 3(1)(b) of the Council Regulation control of parts of the undertaking Guidant Corporation ('Guidant', USA), by way of purchase of assets.
2. The business activities of the undertakings concerned are:
 - for Abbott: design, development and supply pharmaceutical products and medical devices;
 - for Guidant: design, development and supply of cardiovascular medical devices.
3. On preliminary examination, the Commission finds that the notified transaction could fall within the scope of Regulation (EC) No 139/2004. However, the final decision on this point is reserved.
4. The Commission invites interested third parties to submit their possible observations on the proposed operation to the Commission.

Observations must reach the Commission not later than 10 days following the date of this publication. Observations can be sent to the Commission by fax (No (32-2) 296 43 01 or 296 72 44) or by post, under reference number COMP/M.4150 — Abbott/Guidant, to the following address:

European Commission
Competition DG
Merger Registry
J-70
B-1049 Brussels

⁽¹⁾ OJ L 24, 29.1.2004, p. 1.

Prior notification of a concentration
(Case COMP/M.4076 — Boston Scientific/Guidant)

(2006/C 55/15)

(Text with EEA relevance)

1. On 23 February 2006, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 ⁽¹⁾ by which the undertaking Boston Scientific Corporation ('Boston Scientific', USA) acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of the undertaking Guidant Corporation ('Guidant', USA), with the exception of Guidant's interventional cardiology and endovascular devices businesses, by way of purchase of shares.

2. The business activities of the undertakings concerned are:

- for Boston Scientific: design, development and supply of medical devices;
- for Guidant: design and development of cardiovascular medical devices.

3. On preliminary examination, the Commission finds that the notified transaction could fall within the scope of Regulation (EC) No 139/2004. However, the final decision on this point is reserved.

4. The Commission invites interested third parties to submit their possible observations on the proposed operation to the Commission.

Observations must reach the Commission not later than 10 days following the date of this publication. Observations can be sent to the Commission by fax (No (32-2) 296 43 01 or 296 72 44) or by post, under reference number COMP/M.4076 — Boston Scientific/Guidant, to the following address:

European Commission
Competition DG
Merger Registry
J-70
B-1049 Brussels

⁽¹⁾ OJ L 24, 29.1.2004, p. 1.

Prior notification of a concentration
(Case COMP/M.4169 — Virgin/CPW/JV)
Candidate case for simplified procedure

(2006/C 55/16)

(Text with EEA relevance)

1. On 24 February 2006, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 ⁽¹⁾ by which the undertakings Bluebottle UK Limited, belonging to the Virgin Group ('Virgin', UK) and The Carphone Warehouse Limited ('CPW', UK) acquire within the meaning of Article 3(1)(b) of the Council Regulation joint control of a newly created company constituting a joint venture, Omer Telecom Limited ('JV Co', UK) by way of contribution of assets and transfer of shares.

2. The business activities of the undertakings concerned are:

- for Virgin: provides mobile telephony services as an mobile virtual network operator (MVNO) in UK and several countries outside Europe and is globally active in operating airline services (Virgin Atlantic), music retail stores (Virgin Megastores), bridal wear stores (Virgin Brides) etc.;
- for CPW: provision and sale of mobile telecommunications services and products in Europe, the provision of fixed line telecommunication services in France;
- for JV Co: provision of mobile telephony services as an MVNO in France.

3. On preliminary examination, the Commission finds that the notified transaction could fall within the scope of Regulation (EC) No 139/2004. However, the final decision on this point is reserved. Pursuant to the Commission Notice on a simplified procedure for treatment of certain concentrations under Council Regulation (EC) No 139/2004 ⁽²⁾ it should be noted that this case is a candidate for treatment under the procedure set out in the Notice.

4. The Commission invites interested third parties to submit their possible observations on the proposed operation to the Commission.

Observations must reach the Commission not later than 10 days following the date of this publication. Observations can be sent to the Commission by fax (No (32-2) 296 43 01 or 296 72 44) or by post, under reference number COMP/M.4169 — Virgin/CPW/JV, to the following address:

European Commission
Competition DG
Merger Registry
J-70
B-1049 Brussels

⁽¹⁾ OJ L 24, 29.1.2004, p. 1.

⁽²⁾ OJ C 56, 5.3.2005, p. 32.

Initiation of proceedings
(Case COMP/M.4094 — Ineos/BP Dormagen)

(2006/C 55/17)

(Voor de EER relevante tekst)

On 28 February 2006, the Commission decided to initiate proceedings in the above-mentioned case after finding that the notified concentration raises serious doubts as to its compatibility with the common market. The initiation of proceedings opens a second phase investigation with regard to the notified concentration. The decision is based on Article 6(1)(c) of Council Regulation (EC) No 139/2004.

The Commission invites interested third parties to submit their observations on the proposed concentration to the Commission.

In order to be fully taken into account in the procedure, observations should reach the Commission not later than 15 days following the date of this publication. Observations can be sent to the Commission by fax (No (32-2) 296 43 01 or 296 72 44) or by post, under reference No COMP/M.4094 — Ineos/BP Dormagen, to the following address:

European Commission
Competition DG
Merger Registry
J-70
B-1049 Brussels

Prior notification of a concentration
(Case COMP/ M.4161 — SEI/VWBN)

(2006/C 55/18)

(Text with EEA relevance)

1. On 24 February 2006, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 ⁽¹⁾ by which Sumitomo Electrical Industries Ltd ('SEI', Japan), acquires within the meaning of Article 3(1)(b) of the Council Regulation control of Volkswagen Bordnetze GmbH ('VWBN', Germany) by way of purchase of shares.
2. The business activities of the undertakings concerned are:
 - SEI: optical fibres, electronic devices, automotive parts;
 - VWBN: wire harnesses for the automotive industry.
3. On preliminary examination, the Commission finds that the notified transaction could fall within the scope of Regulation (EC) No 139/2004. However, the final decision on this point is reserved.
4. The Commission invites interested third parties to submit their possible observations on the proposed operation to the Commission.

Observations must reach the Commission not later than 10 days following the date of this publication. Observations can be sent to the Commission by fax (No (32-2) 296 43 01 or 296 72 44) or by post, under reference number COMP/M.4161 — SEI/VWBN to the following address:

European Commission
Competition DG
Merger Registry
J-70
B-1049 Brussels

⁽¹⁾ OJ L 24, 29.1.2004, p. 1.

Prior notification of a concentration
(Case COMP/M.3848 — Sea-Invest/EMO-EKOM)

(2006/C 55/19)

(Text with EEA relevance)

1. On 24 February 2006, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 ⁽¹⁾ by which the undertaking Sea-Invest N.V. ('Sea-Invest', Belgium) acquires within the meaning of Article 3(1)(b) of the Council Regulation joint control of the undertakings Europees Massagoed-Overslagbedrijf B.V. and Erts- en Kolen Overslagbedrijf B.V. ('EMO-EKOM', the Netherlands) by way of purchase of shares. After the transaction, EMO-EKOM will be jointly controlled by Sea-Invest, ThyssenKrupp Veerhaven B.V. ('TKV', the Netherlands), H.E.S. Beheer N.V. ('HES', the Netherlands) and Manufrance B.V. ('Manufrance', the Netherlands).

2. The business activities of the undertakings concerned are:

- Sea-Invest: stevedoring services for non-containerised cargo, including coal and iron ore;
- EMO-EKOM: stevedoring services for coal and iron ore;
- TKV: operation of push boat and barge services, stevedoring services for coal and iron ore;
- HES: provision of logistical services in ports, including stevedoring services for coal and iron ore;
- Manufrance: marketing, logistics and quality control of imported coal, stevedoring services for non-containerised cargo, including coal and iron ore.

3. On preliminary examination, the Commission finds that the notified transaction could fall within the scope of Regulation (EC) No 139/2004. However, the final decision on this point is reserved.

4. The Commission invites interested third parties to submit their possible observations on the proposed operation to the Commission.

Observations must reach the Commission not later than 10 days following the date of this publication. Observations can be sent to the Commission by fax (No (32-2) 296 43 01 or 296 72 44) or by post, under reference number COMP/M.3848 — Sea-Invest/EMO-EKOM, to the following address:

European Commission
Competition DG
Merger Registry
J-70
B-1049 Brussels

⁽¹⁾ OJ L 24, 29.1.2004, p. 1.

Prior notification of a concentration
(Case COMP/M.4142 — Time Warner/CBS/JV)
Candidate case for simplified procedure

(2006/C 55/20)

(Text with EEA relevance)

1. On 24 February 2006, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 ⁽¹⁾ by which the undertakings Warner Bros. Entertainment Inc., ultimately controlled by Time Warner Inc. ('Time Warner' USA), and CBS Corporation ('CBS', USA), controlled by Mr. Sumner Redstone acquire within the meaning of Article 3(1)(b) of the Council Regulation joint control of a newly created company constituting a joint venture, The CW ('CW', USA), by way of contribution of assets.

2. The business activities of the undertakings concerned are:

- for Time Warner: primarily active world-wide in the provision of online services, filmed entertainment, in the operation of cable systems and television networks, and publishing;
- for CBS: mass-media company engaged in the production and delivery of television, radio and print publishing content in the US;
- for Mr. Sumner Redstone: individual, the owner of not only CBS but also Viacom, a company active in cable television, motion pictures and digital media platforms;
- for CW: owner and operator of a free-to-air broadcast network in the US.

3. On preliminary examination, the Commission finds that the notified transaction could fall within the scope of Regulation (EC) No 139/2004. However, the final decision on this point is reserved. Pursuant to the Commission Notice on a simplified procedure for treatment of certain concentrations under Council Regulation (EC) No 139/2004 ⁽²⁾ it should be noted that this case is a candidate for treatment under the procedure set out in the Notice.

4. The Commission invites interested third parties to submit their possible observations on the proposed operation to the Commission.

Observations must reach the Commission not later than 10 days following the date of this publication. Observations can be sent to the Commission by fax (No (32-2) 296 43 01 or 296 72 44) or by post, under reference number COMP/M.4142 — Time Warner/CBS/JV, to the following address:

European Commission
Competition DG
Merger Registry
J-70
B-1049 Brussels

⁽¹⁾ OJ L 24, 29.1.2004, p. 1.

⁽²⁾ OJ C 56, 5.3.2005, p. 32.

Non-opposition to a notified concentration**(Case COMP/M.4118 — CVC/KKR/AVR)**

(2006/C 55/21)

(Text with EEA relevance)

On 24 February 2006, the Commission decided not to oppose the above notified concentration and to declare it compatible with the common market. This decision is based on Article 6(1)(b) of Council Regulation (EC) No 139/2004. The full text of the decision is available only in English and will be made public after it is cleared of any business secrets it may contain. It will be available:

- from the Europa competition website (<http://europa.eu.int/comm/competition/mergers/cases/>). This website provides various facilities to help locate individual merger decisions, including company, case number, date and sectoral indexes,
- in electronic form on the EUR-Lex website under document number 32006M4118. EUR-Lex is the on-line access to European law. (<http://europa.eu.int/eur-lex/lex>)

Non-opposition to a notified concentration**(Case COMP/M.4088 — GIB/Groupe FLO)**

(2006/C 55/22)

(Text with EEA relevance)

On 15 february 2006, the Commission decided not to oppose the above notified concentration and to declare it compatible with the common market. This decision is based on Article 6(1)(b) of Council Regulation (EC) No 139/2004. The full text of the decision is available only in French and will be made public after it is cleared of any business secrets it may contain. It will be available:

- from the Europa competition website (<http://europa.eu.int/comm/competition/mergers/cases/>). This website provides various facilities to help locate individual merger decisions, including company, case number, date and sectoral indexes,
 - in electronic form on the EUR-Lex website under document number 32006M4088. EUR-Lex is the on-line access to European law. (<http://europa.eu.int/eur-lex/lex>)
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Non-opposition to a notified concentration**(Case COMP/M.4105 — DSV/Frans Maas)**

(2006/C 55/23)

(Text with EEA relevance)

On 24 February 2006, the Commission decided not to oppose the above notified concentration and to declare it compatible with the common market. This decision is based on Article 6(1)(b) of Council Regulation (EC) No 139/2004. The full text of the decision is available only in English and will be made public after it is cleared of any business secrets it may contain. It will be available:

- from the Europa competition website (<http://europa.eu.int/comm/competition/mergers/cases/>). This website provides various facilities to help locate individual merger decisions, including company, case number, date and sectoral indexes,
- in electronic form on the EUR-Lex website under document number 32006M4105. EUR-Lex is the on-line access to European law. (<http://europa.eu.int/eur-lex/lex>)

Non-opposition to a notified concentration**(Case COMP/M.3930 — LBO/Wheelabrator Allevard)**

(2006/C 55/24)

(Text with EEA relevance)

On 29 September 2005, the Commission decided not to oppose the above notified concentration and to declare it compatible with the common market. This decision is based on Article 6(1)(b) of Council Regulation (EC) No 139/2004. The full text of the decision is available only in English and will be made public after it is cleared of any business secrets it may contain. It will be available:

- from the Europa competition website (<http://europa.eu.int/comm/competition/mergers/cases/>). This website provides various facilities to help locate individual merger decisions, including company, case number, date and sectoral indexes,
 - in electronic form on the EUR-Lex website under document number 32005M3930. EUR-Lex is the on-line access to European law. (<http://europa.eu.int/eur-lex/lex>)
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Non-opposition to a notified concentration
(Case COMP/M.4084 — Banca Intesa/NH Hoteles/NH Italia)

(2006/C 55/25)

(Text with EEA relevance)

On 17 February 2006, the Commission decided not to oppose the above notified concentration and to declare it compatible with the common market. This decision is based on Article 6(1)(b) of Council Regulation (EC) No 139/2004. The full text of the decision is available only in English and will be made public after it is cleared of any business secrets it may contain. It will be available:

- from the Europa competition website (<http://europa.eu.int/comm/competition/mergers/cases/>). This website provides various facilities to help locate individual merger decisions, including company, case number, date and sectoral indexes,
- in electronic form on the EUR-Lex website under document number 32006M4084. EUR-Lex is the on-line access to European law. (<http://europa.eu.int/eur-lex/lex>)

Non-opposition to a notified concentration
(Case COMP/M.3589 — Körber/Winkler + Dünnebier)

(2006/C 55/26)

(Text with EEA relevance)

On 30 November 2004, the Commission decided not to oppose the above notified concentration and to declare it compatible with the common market. This decision is based on Article 6(1)(b) of Council Regulation (EC) No 139/2004. The full text of the decision is available only in English and will be made public after it is cleared of any business secrets it may contain. It will be available:

- from the Europa competition website (<http://europa.eu.int/comm/competition/mergers/cases/>). This website provides various facilities to help locate individual merger decisions, including company, case number, date and sectoral indexes,
 - in electronic form on the EUR-Lex website under document number 32004M3589. EUR-Lex is the on-line access to European law. (<http://europa.eu.int/eur-lex/lex>)
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Non-opposition to a notified concentration
(Case COMP/M.3971 — Deutsche Post/Exel)

(2006/C 55/27)

(Text with EEA relevance)

On 24 November 2005, the Commission decided not to oppose the above notified concentration and to declare it compatible with the common market. This decision is based on Article 6(1)(b) of Council Regulation (EC) No. 139/2004. The full text of the decision is available only in English and will be made public after it is cleared of any business secrets it may contain. It will be available:

- from the Europa competition website (<http://europa.eu.int/comm/competition/mergers/cases/>). This website provides various facilities to help locate individual merger decisions, including company, case number, date and sectoral indexes,
- in electronic form on the EUR-Lex website under document number 32005M3971. EUR-Lex is the on-line access to European law. (<http://europa.eu.int/eur-lex/lex>)

Non-opposition to a notified concentration
(Case COMP/M.3670 — EQT Group/Carl Zeiss/Sola)

(2006/C 55/28)

(Text with EEA relevance)

On 3 March 2005, the Commission decided not to oppose the above notified concentration and to declare it compatible with the common market. This decision is based on Article 6(1)(b) of Council Regulation (EC) No 139/2004. The full text of the decision is available only in English and will be made public after it is cleared of any business secrets it may contain. It will be available:

- from the Europa competition website (<http://europa.eu.int/comm/competition/mergers/cases/>). This website provides various facilities to help locate individual merger decisions, including company, case number, date and sectoral indexes,
 - in electronic form on the EUR-Lex website under document number 32005M3670. EUR-Lex is the on-line access to European law. (<http://europa.eu.int/eur-lex/lex>)
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EUROPEAN CENTRAL BANK

OPINION OF THE EUROPEAN CENTRAL BANK

of 24 February 2006

at the request of the Council of the European Union concerning the proposal for a regulation of the European Parliament and of the Council amending Council Regulation (EC) No 2223/96 with respect to the transmission of national accounts data

(CON/2006/12)

(2006/C 55/29)

On 19 January 2006 the European Central Bank (ECB) received a request from the Council for an opinion on a proposal for a regulation of the European Parliament and of the Council amending Council Regulation (EC) No 2223/96 with respect to the transmission of national accounts data (COM(2005) 653 final) (hereinafter the 'proposed regulation').

The ECB's competence to deliver an opinion is based on the first indent of Article 105(4) of the Treaty establishing the European Community, as the proposed regulation lies within the ECB's fields of competence. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the ECB, the Governing Council has adopted this opinion.

1. GENERAL OBSERVATIONS

- 1.1 The objective of the proposed regulation is to amend Annex B to the Regulation on the European System of Accounts 1995 ⁽¹⁾ with respect to the transmission of national accounts data. The proposed regulation aims to amend the timing, frequency and content of the national accounts that Member States transmit to the Commission of the European Communities (Eurostat), thus improving the availability of national accounts data and the quality of European statistics. The proposed regulation is consistent with the principles of harmonisation and coherence. It also incorporates some of the new requirements expressed by key users and several reductions in the transmission programme, as requested by national compilers.
- 1.2 To conduct monetary policy it is essential for the ECB to use and compile euro area statistics on the basis of national accounts data that are comprehensive, comparable, fit for aggregation across euro area Member States, timely, reliable and consistent within and between the transmission programme's tables. The ECB attaches the highest priority to quarterly national accounts statistics and welcomes the amended programme's proposals for the provision of these data. A consistent national accounts data set is also of high priority as it is needed for a comprehensive analysis of productivity changes. In this context and beyond, more detailed breakdowns are needed for annual data than for quarterly data. The ECB considers the more detailed breakdowns of economic activities and institutional sectors in the proposed regulation as an important improvement. Regional accounts data are not a priority for the ECB.
- 1.3 The ECB also appreciates that the proposed regulation gives priority to the provision by the Member States of timely national accounts data for the more recent periods. The ECB would invite the Commission (Eurostat) and the Member States to ensure the provision of mutually consistent data in the transmission programme's requested tables and to establish and implement a coordinated release and revision policy. In the ECB's view, this also concerns the exact timing of major statistical revisions to national accounts, which may be related to significant methodological changes.

⁽¹⁾ Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community (OJ L 310, 30.11.1996, p. 1).

2. SPECIFIC COMMENTS

- 2.1 Table 1 of the transmission programme covers quarterly and annual main aggregates, crucial for monetary and economic policy. The ECB welcomes improvements in the data supply for Table 1. These include the specification of export and import data by their destination and origin, respectively (Member States of the EU, Members of the Monetary Union and Institutions of the EU) and the specific value added and employment data for manufacturing. The ECB recommends using a common method to compile chain-linked quarterly volume change statistics. Moreover, the ECB recommends requiring working-day and seasonally adjusted statistics in the transmission programme for the quarterly main aggregates, and where appropriate also only working-day adjusted statistics.
- 2.2 Table 3 of the transmission programme covers annual aggregates by branch, essential for productivity and structural analyses. Wherever two types of breakdowns are indicated in this table, the ECB gives priority to full implementation of the less detailed breakdown for the purposes of compiling euro area aggregates.
- 2.3 The ECB requires the non-financial accounts by sector (Table 8 of the transmission programme) to be delivered with the same timeliness as the financial account by sector (Table 6 of the transmission programme) and the balance sheets for financial assets and liabilities (Table 7 of the transmission programme), to enable the necessary full consistency in the compilation of integrated accounts for the euro area.
- 2.4 The ECB would favour reducing the transmission deadline for the provision of data on general government expenditure by function (Table 11 of the transmission programme) from 12 to nine months after the end of the reference year. This would also be consistent with the deadline for submitting the detailed breakdown of general government expenditure (Table 2 of the transmission programme). Furthermore, the ECB would favour a mandatory provision of the further breakdown by COFOG groups of government expenditure for the COFOG divisions economic affairs, health, education and social protection. By contrast, the required breakdown on detailed tax receipts by type of tax and receiving sub-sector (Table 9 of the transmission programme) is more detailed than the ECB's priority requirements.
- 2.5 The ECB would also favour measuring labour input in the use tables (Table 16 of the transmission programme) also in terms of hours worked and subdividing it to allow for an analysis of the implications of labour quality developments for productivity change. Likewise, the ECB would prefer use tables also in basic prices, so that symmetric input-output tables could be constructed at annual intervals. If these annual tables were also broken down into import and domestic components, the symmetric input-output tables for domestic output and imports at basic prices (Tables 18 and 19 of the transmission programme) would not be a priority requirement for the ECB. Concerning Table 16 of the transmission programme, a differentiated approach with regard to reporting obligations of larger and smaller Member States could be considered. The ECB considers that the symmetric input-output tables at basic prices (Table 17 of the transmission programme) and the symmetric input-output tables for domestic output and imports at basic prices (Tables 18 and 19 of the transmission programme) at five-yearly intervals are less relevant due to the time lag and low frequency of their data.
- 2.6 The ECB welcomes the transmission of balance sheets for the non-financial assets (Table 26 of the transmission programme) and considers that more of the variables in this table should be made mandatory. In particular, the provision of mandatory information on the value of dwellings should be supplemented by corresponding information on the value of land, as such data are key to assessing household housing wealth, of particular importance for the ECB.

Done at Frankfurt am Main, 24 February 2006.

The President of the ECB
Jean-Claude TRICHET

OPINION OF THE EUROPEAN CENTRAL BANK**of 27 February 2006****concerning the proposal for a Council regulation laying down detailed rules for the implementation of Council Regulation (EC) No 2494/95 as regards the temporal coverage of price collection in the harmonised index of consumer prices****(CON/2006/13)**

(2006/C 55/30)

On 24 February 2006 the European Central Bank (ECB) received a request from the Council of the European Union for an opinion on a proposal for a Council regulation laying down detailed rules for the implementation of Council Regulation (EC) No 2494/95 of 23 October 1995 concerning harmonized indices of consumer prices (the 'HICP Regulation')⁽¹⁾ as regards the temporal coverage of price collection in the harmonised index of consumer prices (the 'proposed regulation').

The ECB's competence to deliver an opinion is based on the first indent of Article 105(4) of the Treaty establishing the European Community and on Article 5(3) of the HICP Regulation. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. The objective of the proposed regulation is to establish minimum standards for price collection periods within each month in order to improve the comparability of the harmonised indices of consumer prices (HICPs) across Member States and the reliability of the euro area HICP. Because price collection periods differ across Member States, for some items covered by the HICPs short-term variations of prices within a month may lead to significant differences in estimated price changes. The ECB welcomes the proposed regulation which requires that price collections take place across at least one working week, at or near the middle of the month, and across more than one working week for products that are known to show sharp and irregular price changes within a month. These minimum standards represent a compromise between the need for harmonising price collection across Member States, on the one hand, and the costs involved in changing existing price collection practices, on the other.
2. The requirement that products which show volatile prices shall be collected 'over a period of more than one working week', allows Member States some leeway in the implementation of this proposed provision. Close monitoring of the effectiveness of the implementation of the proposed regulation, in this respect, is therefore warranted.
3. The ECB understands that the proposed regulation shall not preclude the release of provisional HICP or HICP flash estimates and shall not affect the current release timetable for the euro area HICP.
4. The ECB agrees with the proposed implementation from January 2007 onwards, given that no systematic effects on measured annual or monthly price changes are expected. Therefore, it is not expected that the revision of back-data will be necessary.

Done at Frankfurt am Main, 27 February 2006.

The President of the ECB
Jean-Claude TRICHET

⁽¹⁾ OJ L 257, 27.10.1995, p. 1.