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I

(Resolutions, recommendations and opinions)

OPINIONS

COUNCIL

COUNCIL OPINION

on the updated stability programme of Belgium, 2009-2012

(2010/C 143/01)

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [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 26 April 2010 the Council examined the updated stability programme of Belgium, which covers the period 2009 to 2012.

(2) The collapse of world trade together with decreasing confidence, wealth effects and tighter credit conditions led to a sharp contraction of the Belgian economy around the turn of 2008. While the downturn was very sharp, it was followed by a relatively strong rebound in the second half of 2009, which was partly the result of temporary factors, including the (domestic and foreign) stimulus packages and a positive contribution from inventories.

Continued headwinds stemming from the restructuring of financial institutions and a further rise in unemployment together with low capacity utilisation are expected to slow down growth again in the first half of 2010. While due to the high degree of openness of the Belgian economy the recovery could benefit considerably from the rebound of world trade, the extent of this impulse may be limited as a result of Belgium's loss of cost competiveness in recent years. The downturn has had a significant adverse impact on public finances. The general government deficit deteriorated from 1,2 % of GDP in 2008 to 5,9 % of GDP in 2009. Moreover, while the government debt-to-GDP ratio declined between 2000 and 2007 on the back of overall cautious fiscal policies, the ratio started to increase again in 2008 as a result of the interventions in the financial sector (to 97,9 % in 2009). The Council decided on 2 December 2009 that an excessive deficit existed in Belgium and issued a recommendation to correct the deficit by 2012 through an average annual fiscal effort of 0,75 % of GDP. The strong deterioration of public finances in combination with the above-average budgetary impact of population ageing and significant contingent liabilities following the operations to stabilise the financial system translate into a need for continued budgetary consolidation and structural reforms to ensure the long-term sustainability of public finances.

(3) Although much of the observed decline in actual GDP in the context of the crisis is cyclical, the level of potential output has also been negatively affected. In addition, the crisis may also affect potential growth in the medium term through lower investment, constraints in credit availability and increasing structural unemployment. Moreover, the impact of the economic crisis compounds the negative effects of demographic ageing on potential output and the sustainability of public finances. Against this background it will be essential to accelerate the pace of structural reforms with the aim of supporting potential growth. In particular, for Belgium it is important to undertake reforms that improve competition, in particular in network industries, and that increase labour supply, including reforms of the labour market (i.a. the wage formation system and the incentives to take up work) and the pension system.

[1] OJ L 209, 2.8.1997, p. 1. The documents referred to in this text can be found at the following website: http://ec.europa.eu/economy_finance/sgp/index_en.htm

(4) The macroeconomic scenario underlying the programme envisages that, after a contraction of 3,1 % in 2009, real GDP will grow by 1,1 % in 2010 and accelerate to 1,7 % in 2011 and further to 2,2 % in 2012. According to the Commission services' autumn 2009 forecast, annual GDP growth is expected to turn slightly positive in 2010 (0,6 %) and to increase to 1,5 % in 2011. However, these projections appear on the low side in view of more recent information, including the better-than-expected outcome for the second half of 2009. The projected composition of growth seems to slightly overstate the contribution of domestic demand to growth in 2010, but appears realistic thereafter. Therefore, assessed against currently available information [1], the growth assumptions of the programme are broadly plausible, while the composition of growth is favourable in 2010. The programme's projections for inflation appear realistic. On the other hand, wage growth assumptions appear to be on the high side as lower labour cost growth in other euro area countries should exercise some downward pressure on Belgian wages in a context of high unemployment. In addition, the projected increase in labour cost per employee exceeds considerably the projected productivity growth.

(5) The programme estimates the general government deficit in 2009 at 5,9 % of GDP. The significant deterioration from a deficit of 1,2 % of GDP in 2008 reflects to a large extent the impact of the crisis on government finances, but was also brought about by stimulus measures amounting to 0,5 % of GDP which the government adopted in line with the European Economic Recovery Plan (EERP). The deterioration mainly reflects a rise in the expenditure-to-GDP ratio. According to the programme, fiscal policy is planned to become restrictive in 2010 and 2011 and more significantly so in 2012, with a view to correcting the excessive deficit by 2012 and returning to a sustainable public finance position. This is broadly in line with the exit strategy advocated by the Council, taking also into account the high public debt-to-GDP ratio and the above-average budgetary impact of ageing.

(6) The programme targets a general government deficit of 4,8 % of GDP in 2010 which is in line with the Council recommendation under Article 126(7) of 2 December 2009. The federal budget for 2010 projected a deficit of 5,6 % of GDP. The downward revision of the budgetary target for 2010 reflects the more favourable macroeconomic prospects in the update (lowering the deficit by about 0,3 % of GDP) as well as the fact that the federal budget does not take into account the planned consolidation measures worth 0,5 % of GDP of other government tiers. According to the update, the revenue ratio increases from 47,7 % of GDP in 2009 to 49,1 % in 2010, whereas the expenditure ratio rises from 53,7 % to 53,9 % of GDP. The structural deficit in the programme (i.e. the cyclically adjusted balance net of one-off and other temporary measures, recalculated by Commission services on the basis of the information in the programme according to the commonly agreed methodology) shows an improvement from 3,8 % of GDP in 2009 to 3,4 % of GDP in 2010. Taking into account that the programme classified some of the temporary stimulus measures in 2009 (0,2 % of GDP) as one-offs, the overall adjustment would amount to 0,5 % of GDP. The improvement of the structural balance in 2010 reflects consolidation measures amounting to around 1 % of GDP. These measures include an increase in personal income taxes in Flanders, an increase in excise duties, higher corporate taxes, non-fiscal revenues stemming from the banking sector and the producers of nuclear energy, and savings on intermediate consumption and the wage bill. This is partly offset by an expansionary expenditure growth trend as a result of previously taken measures and the budgetary impact of population ageing (around 0,5 % of GDP). The role of one-off measures is very limited (below 0,1 % of GDP).

(7) The main goal of the medium-term budgetary strategy is to correct the excessive deficit by 2012, in line with the Council recommendation under Article 126(7) of 2 December 2009 and to achieve a balanced budget by 2015, both in nominal and structural terms. To this end, the programme targets an improvement of the headline deficit from 5,9 % of GDP in 2009 to 4,8 % in 2010, 4,1 % in 2011 and 3 % in 2012. The primary balance shows a slightly stronger improvement as interest expenditure is planned to rise by 0,2 % of GDP over the programme period. The structural deficit (recalculated on the basis of information in the programme), improves from 3,8 % of GDP in 2009 to 3,4 % of GDP in 2010, 2,9 % of GDP in 2011 and 2,2 % of GDP in 2012. After the adjustment amounting to 0,5 % of GDP in 2010, the programme plans an adjustment of 0,5 % and 0,75 % of GDP in 2011 and 2012 respectively, thus amounting on average to over 0,5 % of GDP per year over the programme period. This is somewhat below the 0,75 % of GDP average fiscal effort recommended under Article 126(7), because the path is based on better macroeconomic assumptions. The adjustment appears to be somewhat back-loaded and is based to a larger extent on revenue increases than on expenditure restraint. The adjustment is built on a strong reduction of the deficit of the federal government and smaller reductions of the deficits of the social security system and the Regions and Communities. The government does not plan one-off measures. The measures backing the target for 2011 are partly unspecified and no measures have been specified for 2012. The programme confirms the commitment to the medium-term objective (MTO), which is a 0,5 % of GDP budgetary surplus in structural terms. Given the most

[1] The assessment notably takes into account the Commission services' autumn 2009 forecast, but also other information that has become available since then.

recent projections and debt level, the MTO reflects the objectives of the Pact; however, the programme does not envisage achieving it within the programme period.

(8) The budgetary outcomes could turn out somewhat worse than projected in the programme. In 2010, this could stem from the possible overestimation of corporate taxes. Furthermore, the measures underlying the budgetary path are partly unspecified for 2011 and that no measures have been specified for 2012. In addition, the slightly favourable macroeconomic scenario, with relatively high wage growth projections, may lead to worse than expected budgetary outcomes. Moreover, the government offered sizeable guarantees to the banking sector which might drive up future deficits and debt to the extent that they are called, although some of the cost of government support to the financial sector could also be recouped in the future. Finally, the achievement of the targets and the correction of the excessive deficit by 2012 may not be fully secured as the path is to some extent back-loaded and the target of 3 % of GDP in 2012 leaves no margin, given the track record in respecting the fiscal targets.

(9) Government gross debt is estimated at 97,9 % of GDP in 2009, up from 89,8 % in the year before. This increase is explained by the strong increase in the deficit and the negative GDP growth. The government gross debt ratio thus was well above the Treaty reference value in 2009, and according to the programme it is on an increasing trend until 2011 (reaching 101,4 % of GDP). It would fall slightly to 100,6 % of GDP in 2012. The further increase is mainly driven by continued high government deficits. In view of the negative risks to the budgetary targets, the evolution of the debt ratio could be less favourable than projected in the programme, especially as from 2011. Risks related to the possible need for further support to the financial sector appear limited at the current juncture.

(10) Medium-term debt projections that assume GDP growth rates to gradually recover to the values projected before the crisis, tax ratios to return to pre-crisis levels, and include the projected increase in age-related expenditure show that the budgetary strategy envisaged in the programme, taken at face value and with no further policy change, would not be enough to stabilise the debt-to-GDP ratio by 2020 and consolidation should thus continue after the programme period.

(11) The long-term budgetary impact of ageing is clearly higher than the EU average, mainly as a result of a relatively high increase in pension expenditure as a share of GDP over the coming decades. The budgetary position in 2009 as estimated in the programme compounds the budgetary impact of population ageing on the sustainability gap. Ensuring primary surpluses over the medium term and undertaking reforms of the labour market and the social security system, in particular a further pension reform aimed at curbing the projected substantial increase in pension expenditure, would contribute to reducing the risks to the sustainability of public finances which were assessed in the Commission 2009 Sustainability Report [1] as medium.

(12) The fiscal framework in Belgium benefits from the existence of independent fiscal institutions. However, numerical fiscal rules and medium-term budgetary frameworks appear to be weak, which has contributed to frequent slippages in the past. The programme announces a number of improvements, including the conclusion of multi-annual budgetary agreements among all governments, some steps towards multi-annual budgeting at the federal level, frequent and stringent budget control exercises and the plan to improve the reporting system of local governments. Nevertheless, more could be done to improve the fiscal framework. In particular, there do not exist multi-annual, enforceable expenditure ceilings.

(13) Belgium is confronted with a high overall tax burden in combination with a high level of government spending. The government has taken several measures to reform the tax system, including important tax reductions on labour and to a lesser extent for enterprises. In spite of those measures, the labour market continues to include, also as a result of its interactions with the system of unemployment benefits, significant inactivity, unemployment and low wage traps. In a context of strict budgetary consolidation, further labour tax cuts will have to be fully compensated. On the expenditure side, primary expenditure growth has outpaced nominal GDP growth in the period 2000-2009. The planned reform of the pension system is a welcome step that could lead to a significant positive impact on the budget and potential growth.

(14) Overall, in 2010 the budgetary strategy set out in the programme is consistent with the Council recommendations under Article 126(7). From 2011 on, taking into account the risks, the budgetary strategy may not be fully consistent with the Council recommendation under

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

Article 126(7). In particular, the measures underpinning the target for 2011 are only partly specified and there are no measures specified for 2012. The somewhat optimistic macroeconomic scenario combined with the somewhat smaller-than-recommended annual fiscal effort, constitutes an additional risk for the outer years. The strategy taking into account the risks may not be sufficient to bring the government gross debt ratio back on a declining path that approaches the reference value at a satisfactory pace. Therefore, the strategy needs to be backed up by fully specified measures as from 2011 and additional measures need to be considered to ensure the achievement of the targets if risks materialise. This would also help in view of Belgium's high public debt-to-GDP ratio, above-average budgetary cost of ageing, and the government's considerable contingent liabilities in view of guarantees provided to the financial sector.

(15) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme has limited gaps in the required data and some gaps in the optional data [1]. In its recommendations under Article 126(7) of 2 December 2009 with a view to bring the excessive deficit situation to an end, the Council also invited Belgium to report on progress made in the implementation of the Council's recommendations in a separate chapter in the updates of the stability programmes. Belgium complied with this recommendation through a complement to the programme.

The overall conclusion is that, following the expansion in 2009 in line with the EERP, the budgetary stance turns restrictive in 2010 and 2011 and more significantly so in 2012. At face value, this should lead to a correction of the excessive deficit by 2012, in line with the recommendation of 2 December 2009 under Article 126(7) of the TFEU. The government gross debt-to-GDP ratio, which rose in 2008 as a result of the measures to stabilise the financial system, will continue its upward movement up to 2011 and start declining again in 2012. This would bring the debt back on a downward path. However, the budgetary path is subject to some downside risks. In 2010, potentially optimistic tax estimates may lead to a somewhat higher deficit and may call for additional measures to be taken in the context of the foreseen budget control exercises. As from 2011, the main risk relates to the fact that the measures underpinning the target for 2011 are only partly specified and there are no measures specified for 2012. In addition, the slightly favourable macroeconomic assumptions combined with an average annual fiscal effort that is somewhat below the 0,75 % of GDP recommended by the Council, pose further downward risks to the targets. The Belgian government however committed in the programme to take the necessary exceptional measures if economic growth is insufficient to achieve the 3 % of GDP deficit target in 2012, which may indeed be needed. The adjustment could also benefit from a stronger focus on expenditure restraint. Finally, while the programme announces a number of improvements to the fiscal framework, more needs to be done to support the consolidation effort, in particular as regards the introduction of enforceable, multi-annual expenditure ceilings.

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

(i) ensure that the 2010 deficit target of the programme is met; specify the measures underlying the budgetary targets from 2011 onwards in order to achieve the recommended average annual fiscal effort of 0,75 % of GDP in line with the Article 126(7) Recommendation; and stand ready to strengthen the fiscal effort in case risks related to the fact that the programme scenario is more favourable than the scenario underpinning the Article 126(7) Recommendation materialise; seize as prescribed in the EDP recommendation any opportunity beyond the fiscal efforts, including from better economic conditions, to accelerate the reduction of the gross debt ratio towards the 60 % of GDP reference value;

(ii) ensure high primary surpluses over the medium term and undertake structural reforms in order to improve the long-term sustainability of public finances;

(iii) improve the quality of public finances by adopting a more stringent budgetary framework, encompassing the creation of enforceable, multi-annual expenditure ceilings.

Comparison of key macroeconomic and budgetary projections

		2008	2009	2010	2011	2012
Real GDP (% change)	**SP Jan 2010**	**1,0**	**– 3,1**	**1,1**	**1,7**	**2,2**
	COM Nov 2009	1,0	– 2,9	0,6	1,5	n.a.
	SP Sep 2009	*1,1*	*– 3,1*	*0,4*	*1,9*	*2,4*

[1] In particular, the data on the sectoral balances are not provided.

		2008	2009	2010	2011	2012
HICP inflation (%)	**SP Jan 2010**	**4,5**	**0,0**	**1,5**	**1,7**	**1,8**
	COM Nov 2009	4,5	0,0	1,3	1,5	n.a.
	SP Sep 2009	*4,5*	*0,0*	*1,5*	*1,6*	*1,6*
Output gap ([1]) (% of potential GDP)	**SP Jan 2010**	**1,8**	**– 2,4**	**– 2,5**	**– 2,2**	**– 1,4**
	COM Nov 2009 ([2])	1,7	– 2,3	– 2,8	– 2,4	n.a.
	SP Sep 2009	*2,0*	*– 2,3*	*– 2,9*	*– 2,3*	*– 1,5*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Jan 2010**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
	COM Nov 2009	– 0,2	0,1	0,4	0,3	n.a.
	SP Sep 2009	*– 1,6*	*– 1,9*	*– 2,1*	*– 2,3*	*n.a.*
General government revenue (% of GDP)	**SP Jan 2010**	**48,8**	**47,7**	**49,1**	**49,5**	**49,8**
	COM Nov 2009	48,8	47,7	48,0	48,2	n.a.
	SP Sep 2009	*48,7*	*47,9*	*48,1*	*48,5*	*49,2*
General government expenditure (% of GDP)	**SP Jan 2010**	**50,0**	**53,7**	**53,9**	**53,6**	**52,8**
	COM Nov 2009	50,0	53,6	53,8	54,0	n.a.
	SP Sep 2009	*49,9*	*53,8*	*54,1*	*53,9*	*53,6*
General government balance (% of GDP)	**SP Jan 2010**	**– 1,2**	**– 5,9**	**– 4,8**	**– 4,1**	**– 3,0**
	COM Nov 2009	– 1,2	– 5,9	– 5,8	– 5,8	n.a.
	SP Sep 2009	*– 1,2*	*– 5,9*	*– 6,0*	*– 5,5*	*– 4,4*
Primary balance (% of GDP)	**SP Jan 2010**	**2,6**	**– 2,3**	**– 1,10**	**– 0,4**	**0,8**
	COM Nov 2009	2,6	– 2,0	– 1,8	– 1,7	n.a.
	SP Sep 2009	*2,5*	*– 2,0*	*– 1,9*	*– 1,2*	*– 0,1*
Cyclically-adjusted balance ([1]) (% of GDP)	**SP Jan 2010**	**– 2,2**	**– 4,6**	**– 3,4**	**– 2,9**	**– 2,2**
	COM Nov 2009	– 2,1	– 4,6	– 4,3	– 4,5	n.a.
	SP Sep 2009	*– 2,3*	*– 4,7*	*– 4,4*	*– 4,2*	*– 3,6*
Structural balance ([3]) (% of GDP)	**SP Jan 2010**	**– 2,2**	**– 3,8**	**– 3,4**	**– 2,9**	**– 2,2**
	COM Nov 2009	– 2,2	– 4,2	– 4,4	– 4,5	n.a.
	SP Sep 2009	*– 2,3*	*– 4,7*	*– 4,4*	*– 4,2*	*– 3,6*
Government gross debt (% of GDP)	**SP Jan 2010**	**89,8**	**97,9**	**100,6**	**101,4**	**100,6**
	COM Nov 2009	89,8	97,2	101,2	104,0	n.a.
	SP Sep 2009	*89,7*	*97,5*	*101,9*	*103,9*	*104,3*

Notes:

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

([2]) Based on estimated potential growth of 1,7 %, 1,1 %, 1,0 % and 1,2 % respectively in the period 2008-2011.

([3]) Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0,8 % of GDP deficit increasing in 2009 according to the most recent programme; and 0,1 % of GDP deficit-reducing in 2008 and 2010 and 0,5 % of GDP deficit increasing in 2009 in the Commission services' November 2009 forecast.

Source:

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

COUNCIL OPINION

on the updated convergence programme of Lithuania, 2009-2012

(2010/C 143/02)

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [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 26 April 2010 the Council examined the updated convergence programme of Lithuania, which covers the period 2009 to 2012.

(2) Lithuania is emerging from one of the strongest recessions in the EU. Several years of rapid and increasingly unsustainable growth, mainly driven by domestic demand and a real estate boom, came to a halt in 2008 when the bursting of the domestic bubble was reinforced by the impact of the global financial crisis reducing external demand and sharply tightening access to credit. The sharp decline in domestic demand and the opening up of spare capacity helped narrow existing imbalances, reducing inflation and eliminating the external deficit, largely through a collapse in imports.

The current account balance, substantially negative in the boom years and financed by capital imports associated with the banking sector, leading to a rapid increase in net external liabilities, in 2009 reached an estimated surplus of 3,1 % of GDP. The sharp decline in government revenues resulting from the economic contraction, together with the consequences of an expansionary fiscal policy before the parliamentary elections in 2008, nevertheless left Lithuania facing significant fiscal challenges. A strong policy response was put in place by the government by pursuing fiscal consolidation to contain the deterioration in public finances and to limit debt accumulation, thereby inter alia supporting the credibility of the currency board arrangement. Given the wide internal and external imbalances accumulated during the boom years and the difficulty of securing new international financing once the global financial crisis set in, this was a prudent response in line with the European Economic Recovery Plan (EERP). Nevertheless, Lithuania was made subject to an EDP procedure, with the Council deciding on 7 July 2009 that an excessive deficit existed. Revised Council recommendations (Article 126(7), issued on 16 February 2010), called for correcting the excessive deficit by 2012. Ambitious fiscal consolidation is thus needed (an average fiscal effort of 2,25 % of GDP per annum), underpinned by structural reforms. So as to provide some support to the ailing economy, Lithuania has increased and frontloaded the absorption of EU structural funds. Throughout the crisis the economy has proved a high degree of flexibility as a significant adjustment has occurred via decreases in prices and wages. Large increases in unemployment, which could become structural, nevertheless pose major risks to long-term convergence. With a view to restoring positive and sustainable growth and avoiding any relapse into unsustainable internal and external imbalances, the main economic challenges relate to ensuring that wage developments are in line with productivity, improving competitiveness and promoting sectoral transformation towards tradable sectors as well as encouraging further reorientation towards medium- and high-tech products. A major adjustment of public finances to the expected lower growth in the coming years has already been initiated, but further progress remains to be secured in the medium term.

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

[1] OJ L 209, 2.8.1997, p. 1. The documents referred to in this text can be found at the following website: http://ec.europa.eu/economy_finance/sgp/index_en.htm

structural reforms with the aim of supporting potential growth. In particular, for Lithuania it is important to improve administrative capacity, step up implementation of reforms in the areas of healthcare and the social security system as well as improving the quality of higher education and lifelong learning so as to improve skill levels and raise productivity.

(4) The macroeconomic scenario underlying the programme envisages that real GDP, after dropping by 15,0 % in 2009, grows by 1,6 % in 2010, accelerating to 3,2 % in 2011, but slowing back to only 1,2 % in 2012. The scenario projects domestic demand to contract further in 2010, as the labour market situation remains subdued, credit conditions tight and fiscal consolidation is set to continue. Growth in 2010 is thus dependent on a strong recovery in external demand, helped by market share gains, and recovery in fixed investment, mainly supported by accelerated absorption of EU structural funds. Continuing fiscal consolidation by the government is reflected in the macroeconomic scenario. Domestic demand is expected to contribute positively to growth from 2011. Assessed against currently available information [1], this scenario appears to be based on favourable growth assumptions for 2010. While the 2,2 % average growth rate envisaged for the final two programme years itself appears plausible, the profile and composition of growth between the two years is much less so. The programme's projections for inflation appear realistic. Current nominal declines in domestic prices and wages are expected to continue in 2010 according to both the programme and the Commission services' autumn 2009 forecast.

Given the collapse of imports as a result of the recession, the previously high external deficit has turned into surplus, which is expected to be maintained also in 2011, before the balance would turn slightly negative on the back of recovering domestic demand. This is broadly plausible, although the size of the external surplus projected for 2010 is much higher than projected by the Commission services. Unemployment is projected to increase further in 2010 before starting to decline from 2011 onwards. Monetary and exchange rate assumptions of the programme are consistent with the rest of the macroeconomic scenario.

(5) The programme estimates the general government deficit in 2009 at 9,1 % of GDP. The significant deterioration from a deficit of 3,2 % of GDP in 2008 mainly reflects a substantial tax shortfall due to the considerably worse economic outcome (an estimated 16,9 % contraction of nominal GDP against an expectation of 0,9 % growth in the previous programme update) and despite sizeable budgetary consolidation measures of around 8 % of GDP adopted in the course of the year. Revenue fell substantially, reflecting much lower-than-expected economic activity, although revenue fell even more than would be suggested by the standard elasticities. As a result of significant cuts in government consumption, including public sector wages, expenditure was also broadly down compared to the 2008 level. The restrictive expenditure stance was thus insufficient to offset the consequences of the economic crisis on the revenue side. The estimated deterioration in the structural balance in 2009 should be viewed with caution as the exceptionally volatile economic environment may lead to standard elasticities insufficiently capturing the impact of the extreme downturn. According to the programme, fiscal policy is planned to remain restrictive in 2010 and onwards. In view of Lithuania's relatively unfavourable budgetary and economic situation, the continued fiscal austerity in 2010 is appropriate and in keeping with the EERP. In line with the exit strategy advocated by the Council, and with a view to correcting the excessive deficit by 2012, it should contribute towards the achievement of a significantly more sustainable public finance position.

(6) The programme projects the headline deficit to decline to 8,1 % of GDP in 2010; this compares with a deficit of 9,5 % of GDP targeted in the budget adopted in December 2009, reflecting an improvement since then in the assumed macroeconomic outlook. The improvement compared to the estimated 2009 outturn is mainly attributable to further substantial cuts in expenditure of around 4 % of GDP, particularly in government current spending, including the public sector wage bill, and social benefits. The expenditure-to-GDP ratio is nevertheless projected to increase by around 1 pp in the programme, mainly due to a planned increase in investment and higher interest payments, while other expenditure categories are set to decline further. On the revenue side, changes are limited to a reduction in the corporate income tax rate and some increases in non-tax revenue. Furthermore, the 2010 budget also reflects the full-year impact of revenue and expenditure consolidation measures implemented in the second half of 2009. The share of non-tax revenue in the programme is projected to increase substantially, mainly relating to higher absorption of EU structural funds. While the ratio to GDP of taxes on production and imports is set to remain at a similar level to 2009, the ratio of current taxes on income and wealth is set to decline further, due to the ongoing decline in nominal wages and falling profits. Measures of a one-off and temporary nature in 2010 include the suspension of part of the transfers to the second-pillar pension funds. The overall fiscal stance in 2010, as measured by the change in the structural balance, is expected to be restrictive, showing an improvement of 0,5 percentage point. However, this seems to significantly underestimate the government's consolidation efforts totalling 4,0 % of GDP. The estimate of consolidation based on the structural balance should be treated with extreme caution, given its reliance on output gap estimates which are far from robust in current circumstances.

[1] The assessment notably takes into account the Commission services' autumn 2009 forecast, but also other information that has become available since then.

(7) The medium-term budgetary strategy of the programme is to reduce the deficit below the 3 % threshold by 2012, in line with the recommendation by the Council on 16 February 2010. The structural balance calculated according to the commonly agreed methodology will improve according to the programme by 2,25 % of GDP annually over the period 2011-2012 although the adjustment seems to be backloaded. The improvement is mainly to be achieved by a further substantial reduction in the expenditure ratio (by around 4,75 pp), with an expected nominal reduction in most primary expenditure categories, particularly compensation of employees and social payments, while the revenue-to-GDP ratio is set to increase (by around 1,5 pp). The programme explicitly acknowledges that achievement of its budgetary targets and correction of the excessive deficit by 2012 requires additional measures of around 4,5 % of GDP. Broad measures intended to support the achievement of budgetary targets beyond 2010 are spelled out to some extent in the programme. This adjustment takes place alongside gradually improving cyclical conditions, although the (recalculated) negative output gap will not close by the end of the programme period. The medium-term objective (MTO) has been substantially strengthened compared to the previous programme update, to a general government structural surplus of 0,5 % of GDP, in order to reinforce confidence in the currency board arrangement, limit the increase of government debt and improve the long-term sustainability of public finances. The programme does not, however, mention a target year for achieving the MTO. Given the most recent projections and debt level, the MTO more than adequately reflects the objectives of the Pact.

(8) The budgetary outcomes could turn out worse than projected in the programme over the whole programme period. In 2010, this is mainly because of a reliance on a more rapid recovery of economic activity than seems likely. The budgetary targets beyond 2010 are subject to risks given the limited extent of information provided in the programme regarding the measures underpinning the achievement of these targets and the need for additional measures to achieve these targets. Furthermore, reliance on a further substantial reduction in government expenditure and only to a limited extent on revenue-increasing measures in the outer years of the programme seems to be subject to implementation risks. Compensation of public employees is planned to decline by a further 3 pp over 2011-2012, following already substantial wage cuts adopted in 2009 and 2010 and might be difficult to achieve. On the positive side, the relatively good track record of the Lithuanian authorities in meeting their targets, with a notable exception in 2008 mainly due to electoral cycle, and the decisive consolidation implemented during 2009 despite an unprecedented economic contraction, reduce these risks. Furthermore, the government has an ambitious reform agenda for 2010 and later years, which should also help to achieve the required ambitious fiscal targets. The apparently weak macroeconomic projection for 2012 also carries the possibility of somewhat stronger revenue growth in that year, if the programme is backed by concrete measures over the whole programme period.

(9) Government gross debt is estimated at 29,5 % of GDP in 2009, substantially up from 15,6 % in the year before. Apart from the increase in the deficit and the decline in nominal GDP growth, the increase in the ratio also results from a significant stock-flow adjustment that reflects financing of part of the 2008 deficit in 2009. The debt ratio is projected to increase by a further 11,5 pps over the programme period to 41 % of GDP in 2012, mainly driven by continued high government deficits. In view of the negative risks to the budgetary targets compounded by uncertainty about the stock-flow adjustment, the evolution of the debt ratio could also be less favourable than projected in the programme. Nevertheless, the debt level is projected to remain below the Treaty reference value throughout the programme period.

(10) Medium-term debt projections that assume GDP growth rates to gradually recover to the values projected before the crisis, tax ratios to return to pre-crisis levels, and include the projected increase in age-related expenditure show that the budgetary strategy envisaged in the programme, taken at face value and with no further policy change, is not enough to stabilise the debt ratio by 2020.

(11) The long-term budgetary impact of ageing is slightly above the EU average, mainly due to the projected increase in pension expenditure during the coming decades. The budgetary position in 2009, as estimated in the programme, compounds the budgetary impact of population ageing on the sustainability gap. Aiming at improving the primary balance over the medium term, as foreseen in the programme, and social security system reform, including pension reform, aimed at curbing the increase in age-related expenditures, would contribute to reducing the risks to the sustainability of public finances, which were assessed in the Commission 2009 Sustainability Reportas high [1].

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

(12) In the years of high growth preceding the current downturn, Lithuania's medium-term budgetary framework failed to prevent expenditure overruns. Buoyant revenue growth facilitated repeated upward revisions of expenditure targets. With a view to strengthening the framework, a Law on Fiscal Discipline was adopted for the central government in November 2007. The law focuses on the preparation and execution of the annual budget and does not as such introduce more forward-looking medium-term elements. The enforcement mechanism is very weak and lacks sanctions. In general, significant weaknesses relate to the lack of transparency of the budgetary process, including appropriate reporting of revenue and expenditure executions and the comparability of budgetary indicators on cash and accrual bases.

The 2010 convergence programme proposes a number of measures to increase transparency, including data reporting and monitoring of budget execution improvements. If implemented, these proposals could substantially improve the institutional features of public finances.

(13) The composition of public expenditure in Lithuania is supportive to growth, as productive expenditure such as public investment and expenditure on education and healthcare is relatively high. However, medium to poor outcomes and performance indicators in the areas of education and health suggest significant scope for reaping efficiency gains. To this end important structural reforms in the education and healthcare systems have been launched. Moreover, the removal of tax exemptions and preferential rates implemented in 2009, and ongoing efforts in countering tax avoidance and further simplifying and streamlining the tax administration contribute to improving the quality of public finances, as well as to mitigating risks to the budgetary outlook.

(14) The strategy ensuring a smooth participation in ERM II is based on securing exchange rate stability by maintaining sufficient monetary buffers, financial and fiscal stability and preserving flexibility of labour and product markets. Since the end of 2008, the policy response to maintain macroeconomic stability in Lithuania has been strong; however, the situation remains challenging. Between the end of 2008 and the end of 2009, the government has undertaken strong fiscal consolidation by adopting several sizeable consolidation packages, totalling close to 12 % of GDP. The high degree of wage and price flexibility is also contributing to recovering part of the deteriorated competitiveness of the economy. Despite the losses incurred through asset write-downs, the banking sector has remained well-capitalised. The government has also launched major structural reforms in the fields of education, healthcare and social security. Lithuania has revised labour legislation to enhance labour market flexibility, facilitating the adjustment of the economy. The challenge going ahead is to avoid any relapse to significant internal and external imbalances once the recovery becomes established.

(15) Overall, in 2010 the budgetary strategy set out in the programme is broadly consistent with the Council recommendations under Article 126(7) of 16 February 2010. From 2011 on, taking into account the risks, the budgetary strategy may not be consistent with the Council Recommendation. In particular, risks relate to a possibly optimistic macroeconomic outlook for 2010 and incomplete specification of measures to achieve the planned consolidation in the two later years, compounded by implementation uncertainties as regards planned expenditure reductions. The planned average fiscal effort of 1⅔% over the 2010-2012 period also falls short of the Council Recommendation under Article 126(7) and will need to be strengthened by additional measures in case the relatively strong growth assumed for 2010 and 2011 does not materialise, in order to ensure a correction of the excessive deficit by 2012 as recommended by the Council.

(16) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme has some gaps in the optional data. In its recommendations under Article 126(7) of 16 February 2010 with a view to bring the excessive deficit situation to an end, the Council also invited Lithuania to report on progress made in the implementation of the Council's recommendations in a separate chapter in the updates of the convergence programmes. With some gaps in the provision of optional data, Lithuania broadly complied with this recommendation.

The overall conclusion is that Lithuania implemented a decisive consolidation of public finances in 2009 against a significant deterioration of the economic situation, contributing to the ongoing adjustment in the economy and supporting smooth participation in ERM II and the correction of the excessive deficit. The economy is currently emerging from a severe recession, while average growth is projected to remain considerably lower over the medium term than in the peak years of the recent cycle. The consolidation implemented in 2009 already constitutes a major adjustment of public finances to the expected lower growth in the medium term. Stricter expenditure control and a strengthened medium-term budgetary framework would support the needed further consolidation. The programme targets a gradual decline in the general government headline deficit from 2010, aiming at the correction of the excessive deficit by 2012 as recommended by the Council, although these budgetary outcomes are subject to downside risks over the whole programme period.

In view of the above assessment and also in the light of the recommendation under Article 126 TFEU of 16 February 2010 and given the need to ensure sustainable convergence and a smooth participation in ERM II, Lithuania is invited to:

(i) consider additional corrective measures in 2010 if necessary to achieve the envisaged consolidation, in addition to implementing rigorously those planned in the budget;

(ii) specify the necessary measures to underpin fully the required adjustment over the programme period recommended by the Council under Article 126(7), and stand ready to adopt further consolidation measures in case risks related to the fact that the macroeconomic scenario of the programme is more favourable than the scenario underpinning the Article 126(7) Recommendation materialise;

(iii) implement planned social security system reforms, including pension reform, so as to reduce the high risks to long-term sustainability of public finances due to significant projected increases of pension expenditure during the coming decades;

(iv) strengthen fiscal governance and transparency, by enhancing the medium-term budgetary framework and improving reporting of budgetary data, ensuring comparability of the budgetary indicators on cash and accrual bases.

Comparison of key macroeconomic and budgetary projections

		2008	2009	2010	2011	2012
Real GDP (% change)	**CP Jan 2010**	**2,8**	**– 15,0**	**1,6**	**3,2**	**1,2**
	COM Nov 2009	2,8	– 18,1	– 3,9	2,5	n.a.
	CP Jan 2009	*3,5*	*– 4,8*	*– 0,2*	*4,5*	*n.a.*
HICP inflation (%)	**CP Jan 2010**	**11,1**	**4,2**	**– 1**	**1**	**1,5**
	COM Nov 2009	11,1	3,9	– 0,7	1,0	n.a.
	CP Jan 2009	*11,2*	*5,4*	*3,6*	*– 0,1*	*n.a.*
Output gap [1] (% of potential GDP)	**CP Jan 2010**	**8,8**	**– 7,7**	**– 5,9**	**– 2,9**	**– 1,7**
	COM Nov 2009 [2]	11,8	– 8,2	– 10,8	– 8,2	n.a.
	CP Jan 2009	*5,4*	*– 2,8*	*– 5,7*	*– 4,0*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**CP Jan 2010**	**– 10,2**	**3,7**	**7,5**	**5,3**	**4,3**
	COM Nov 2009	– 10,6	3,3	4,8	4,3	n.a.
	CP Jan 2009	*– 10,2*	*– 1,8*	*– 4,7*	*– 5,7*	*n.a.*
General government revenue (% of GDP)	**CP Jan 2010**	**34,2**	**34,3**	**36,2**	**35,6**	**35,7**
	COM Nov 2009	34,2	36,1	36,8	36,3	n.a.
	CP Jan 2009	*33,8*	*35,8*	*37,3*	*36,4*	*n.a.*
General government expenditure (% of GDP)	**CP Jan 2010**	**37,4**	**43,4**	**44,3**	**41,4**	**38,7**
	COM Nov 2009	37,4	45,9	46,0	46,0	n.a.
	CP Jan 2009	*36,7*	*37,8*	*38,3*	*36,4*	*n.a.*
General government balance (% of GDP)	**CP Jan 2010**	**– 3,2**	**– 9,1**	**– 8,1**	**– 5,8**	**– 3,0**
	COM Nov 2009	– 3,2	– 9,8	– 9,2	– 9,7	n.a.
	CP Jan 2009	*– 2,9*	*– 2,1*	*– 1,0*	*0,0*	*n.a.*

		2008	2009	2010	2011	2012
Primary balance (% of GDP)	**CP Jan 2010**	**– 2,6**	**– 7,8**	**– 6,2**	**– 3,6**	**– 0,6**
	COM Nov 2009	– 2,6	– 8,4	– 7,0	– 7,1	n.a.
	CP Jan 2009	*– 2,3*	*– 1,2*	*0,0*	*1,1*	*n.a.*
Cyclically adjusted balance (3) (% of GDP)	**CP Jan 2010**	**– 5,6**	**– 7,0**	**– 6,5**	**– 5,0**	**– 2,6**
	COM Nov 2009	– 6,4	– 7,6	– 6,3	– 7,5	n.a.
	CP Jan 2009	*– 4,4*	*– 1,3*	*0,5*	*1,1*	*n.a.*
Structural balance (3) (% of GDP)	**CP Jan 2010**	**– 6,0**	**– 7,2**	**– 6,8**	**– 4,8**	**– 2,3**
	COM Nov 2009	– 6,3	– 8,0	– 7,0	– 7,5	n.a.
	CP Jan 2009	*– 4,9*	*– 1,8*	*0,1*	*1,1*	*n.a.*
Government gross debt (% of GDP)	**CP Jan 2010**	**15,6**	**29,5**	**36,6**	**39,8**	**41,0**
	COM Nov 2009	15,6	29,9	40,7	49,3	n.a.
	CP Jan 2009	*15,3*	*16,9*	*18,1*	*17,1*	*n.a.*

Notes:

(1) Output gaps and cyclically adjusted balances according to the programmes as recalculated by Commission services on the basis of the information in the programmes.

(2) Based on estimated potential growth of 3,0 %, – 0,2 %, – 1,2 % and – 0,3 % respectively in the period 2008-2011.

(3) Cyclically adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0,5 % of GDP in 2008, 0,2 % of GDP in 2009 and 0,3 % in 2010; all deficit-improving; and 0,3 % of GDP in 2011 and 0,3 % of GDP in 2012; all deficit-reducing according to the most recent programme and 0,1 % of GDP in 2008, 0,6 % in 2009 and 0,7 % in 2010; all deficit-reducing in the Commission services' autumn 2009 forecast.

Source:

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

COUNCIL OPINION

on the updated stability programme of Luxembourg, 2009-2014

(2010/C 143/03)

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [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 26 April 2010 the Council examined the updated stability programme of Luxembourg, which covers the period 2009 to 2014.

(2) The Luxembourgish economy was severely hit by the crisis: real GDP, after zero growth in 2008, dropped by 3,9 % in real terms in 2009, according to most recent estimates, as all demand components went down, with the exception of public expenditure. The contribution of net exports remained positive as imports dropped even more than exports, probably due to a collapse in equipment investment. The financial sector seems to have been less affected by the crisis than could have been expected, even if at the end of 2008 the Luxembourgish authorities had to organise a support operation for two of the country's largest banks which belong to international groups. Employment still rose by 1,2 % on average in 2009 but exclusively thanks to the carry-over resulting from the very strong growth recorded in 2008 (+ 4,7 %). It only slightly decreased in the financial sector but much more strongly in the industry. Unemployment increased from 4,9 % in 2008 to 5,7 % on average in 2009, despite the massive recourse to short-time working encouraged by the authorities. The main challenge for Luxembourg at the current juncture is to maintain and develop the favourable conditions that have made possible the remarkable growth experience of the latest 25 years based on the country's increasing specialisation in services activities, especially financial services. Moreover, as far as budgetary policy is concerned, the long-term perspective deserves full attention. First, the rise in expenditure has been rather strong in recent years and the recurrent surpluses have essentially been made possible by buoyant revenues, the continuation of which is not certain Moreover, due for a large part to the generosity of the country's pension system, the rise in age-related expenditure is projected to be one of the strongest in the EU.

(3) Although much of the observed decline in actual GDP in the context of the crisis is cyclical, the level of potential output has also been negatively affected. In addition, the crisis may also affect potential growth in the medium term through lower investment, constraints in credit availability, increasing structural unemployment and a durable reduction in the growth of financial activities all over the world. Moreover, the impact of the economic crisis compounds the negative effects of demographic ageing on potential output and the sustainability of public finances. Against this background it will be essential to accelerate the pace of structural reforms with the aim of supporting potential growth. In particular, for Luxembourg it is important to increase the employment rate of the resident population, enhance the attractiveness of the business environment, foster wage behaviour that takes into account the sizeable rise in labour costs observed in recent years, and continue efforts to increase R&D activities in the country.

(4) The macroeconomic scenario underlying the programme projects real GDP to grow by 2,5 % in 2010, after a contraction by 3,9 % in 2009, and by 2,9 % a year on average over the rest of the programme period. Assessed against currently available information [2], this scenario appears to be based on slightly favourable growth assumptions for 2010 even if better than expected data for the third quarter of 2009 is taken into account. For the period 2011-2014, the programme's growth projections are roughly plausible against the background of the Commission services' estimates of potential growth and the assumption of a gradual closing of the output gap. The programme's projections for employment, unemployment and inflation also appear realistic.

(5) The programme estimates the general government deficit in 2009 at 1,1 % of GDP. This significant deterioration from a surplus of 2,5 % of GDP in 2008 essentially resulted from a surge by almost 5 percentage points of GDP in public expenditure, only partially compensated by an increase in the revenue ratio (which only resulted from the fact that nominal GDP dropped even more than revenues). The increase in the expenditure ratio reflects to a large extent the impact of the crisis on government

[1] OJ L 209, 2.8.1997, p. 1. The documents referred to in this text can be found at the following website: http://ec.europa.eu/economy_finance/sgp/index_en.htm

[2] The assessment notably takes into account the Commission services' autumn 2009 forecast, but also other information that has become available since then.

finances via the automatic stabilisers, but was also brought about by stimulus measures amounting to 1,75 % of GDP which the government adopted in line with the European Economic Recovery Plan (EERP). These measures chiefly included a significant acceleration in government investment programmes as well as important tax cuts, especially in personal income tax, which are of a permanent nature. According to the programme, fiscal policy is planned to remain supportive in 2010, which, in view of Luxembourg's relatively favourable budgetary and economic situation is in keeping with the EERP. However, from 2011 the programme's projections under a no-policy change assumption do not reflect a restrictive stance in line with the exit strategy advocated by the Council even if the programme acknowledges that the authorities plan to take corrective steps.

(6) The general government deficit is projected to increase to 3,9 % of GDP in 2010, a deterioration which should stem from a rise in expenditure by 0,9 percentage point of GDP and a decline in revenues by 2 percentage points of GDP. The increase in expenditure will result chiefly from higher spending in the fields of education (0,3 percentage point of GDP), family policy (0,25 percentage point of GDP) and public infrastructures (0,5 percentage point of GDP). The decrease in revenues would be the consequence of a fall in direct tax receipts (by 1,4 percentage points of GDP) due essentially to the effects of the crisis, especially on corporate tax. Moreover, the rate of this tax was reduced from 22 % to 21 %, with an estimated *ex ante* impact of about 0,1 percentage point of GDP. The decrease in revenues would also result to a lesser extent from a decline in indirect taxes and social security contributions relative to GDP (by 0,4 and 0,2 percentage point of GDP, respectively). Since the deficit for 2009 has been revised downwards by 1,2 percentage points of GDP with respect to the estimate provided by the budget, while the deficit target for 2010 has been revised down by 0,5 percentage point, the deterioration in the general government balance in 2010 is now projected by the programme to reach 2,8 percentage points of GDP (compared to 2,1 percentage points in the budget). The structural balance (i.e. the cyclically adjusted balance calculated according to the commonly agreed methodology, based on information given in the programme, and net of one-off and other temporary measures) would deteriorate by about 3 percentage points of GDP from a surplus of about 1 % of GDP in 2009.

(7) For the period after 2010, the programme presents a fully fledged budgetary scenario based on an 'unchanged policy' hypothesis, where the general government deficit would first increase to 5,0 % of GDP in 2011 and then slowly decrease to 4,6 % of GDP in 2012 and 4,3 % of GDP in 2013 before it would reach 3,1 % of GDP in 2014 as the effects of the crisis progressively fade away. This scenario thus implies that the general government deficit would remain above 3 % of GDP until the end of the period covered. The automatic decrease in the deficit would result both from a gradual recovery in revenue and from a slight decrease in the expenditure ratio. The revenue ratio is forecast to slightly rise from a trough recorded in 2011 (38,1 % of GDP) to 39,5 % of GDP, chiefly due to a resurgence in direct taxes from 2011, when the delayed impact of the crisis on receipts is supposed to reach its maximum. Simultaneously, the expenditure ratio is projected to slightly decline from a maximum of 43,6 % of GDP reached in 2010 to 42,7 % in 2014, due to the progressive acceleration in growth. The structural deficit (as recalculated by the Commission services) would first increase from 2,25 % of GDP in 2010 to about 3,5 % in 2011, when the headline deficit would peak at 5,0 % of GDP and then slightly decrease to 2,25 % of GDP in 2014, following the decline in the headline deficit. The programme acknowledges that the main goal of the medium-term budgetary strategy is to bring public finances back to balance by 2014 by reducing the headline deficit by about 1 percentage point of GDP every year. However, any information in terms of revenue and expenditure levels associated with this adjustment path or supporting measures is postponed until after a consultation with the social partners expected to be concluded by late April of this year.

The programme indicates that due to the importance of implicit liabilities related to population ageing the medium-term budgetary objective (MTO) has been modified from a structural deficit of 0,8 % of GDP to a structural surplus of 0,5 % of GDP. Given the most recent projections and debt levels, this MTO does not appear to take sufficiently into account the implicit liabilities related to ageing, despite the debt being below the Treaty reference value. The programme does not envisage that this MTO will be achieved within the period covered by the programme.

(8) The budgetary outcome for 2010 could be somewhat better than projected in the programme. However this does not in any way alter the rationale for proceeding with the planned fiscal consolidation in the years 2011-2014. The possible improvement of the 2010 outcome is related to a base effect stemming from the downward revision by 1,2 percentage points of GDP in the 2009 deficit (with respect to the original deficit projection in the 2010 budget), which has not been fully translated into a better outcome in 2010. Consequently, the deterioration in the general government balance in 2010 is now projected to reach 2,8 % of GDP, while it was forecast to amount to 2,1 % in the budget. Before the crisis, budgetary outcomes in Luxembourg have often been better than initially planned. For the period 2011-2014, the 'unchanged policy scenario' presents a plausible picture of developments in public finance, with the possible positive base effect being roughly balanced by negative risks attached to the macroeconomic outlook. As far as the alternative adjustment path targeting a reduction of the government balance to below 3 % by 2014 is concerned, in the absence of any information about the revenue and expenditure levels associated with the planned deficits and the measures necessary to achieve the envisaged consolidation an assessment is not possible.

(9) The debt ratio doubled from 6,6 % of GDP in 2007 to 13,5 % in 2008, essentially as a result of the financial support to the financial sector. The programme projects a further rise from 14,9 % of GDP in 2009, to 37,4 % in 2014. This increase will exceed the sum of the projected deficits, due to sizable transfers from central government to social security. While the debt ratio is increasing, it remains well below the Treaty reference value throughout the programme period. The social security system and, to a lesser extent, the central government hold sizeable assets generated by the recurrent surpluses of the past. However those assets are insufficient to cover future social security obligations.

(10) Medium-term debt projections until 2020 that assume GDP growth rates will gradually recover to the values projected before the crisis, tax ratios will return to pre-crisis levels and that include the projected increase in age-related expenditures show that the budgetary development envisaged in the programme, taken at face value and with no further policy change, is not enough to stabilise the debt by 2020.

(11) The long-term budgetary impact of ageing is significantly above the EU average, influenced notably by a very considerable projected increase in pension expenditure. The significant assets accumulated in social security system will help to partially finance the projected increase in pension expenditure, while the budgetary plans until 2014 imply that the structural primary surplus would no longer be sufficient to compensate for the increasing costs of ageing. Achieving high primary surpluses over the medium term and, as recognised by the authorities, implementing measures aimed at curbing the substantial increase in pension expenditure would contribute to reducing the risks to the sustainability of public finances, which were assessed in the Commission 2009 Sustainability Report ([1]) as medium.

(12) Numerical fiscal rules and medium-term budgetary frameworks (with the exception of the State's multi-annual capital spending programme) do not appear to play a significant role in Luxembourg. However, this does not seem to have led to significant budgetary slippages in the past, even if it may have played a role in the recurrent and substantial revisions in public finance data observed in recent years (in general towards a more positive outcome). The programme does not announce any plans in this respect.

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

(13) The structure of public finances seems comparatively favourable in Luxembourg: government expenditure and the tax burden are relatively low compared with other Member States. In particular, taxation of labour income and government consumption are comparatively low. Moreover, public investment is one of the highest in the whole EU. There is, however, room for improving the effectiveness of public spending including in the field of education. Furthermore, the interplay of generous social benefits and the, though comparatively low, taxation of labour income do not seem to provide sufficient incentives to work for average and low earners. Finally, reforms of the relatively generous pension system reform will be required to cope with the burden of population ageing.

(14) Overall, taking into account the favourable starting budgetary position of Luxembourg at the beginning of the crisis and the low level of the government debt, the planned supportive fiscal stance in 2010 is appropriate and in line with the EERP. From 2011 onwards, the no-policy change projection in the programme is not in line with the requirements of Pact as it does not contain the necessary consolidation efforts that would be needed to reduce the deficit below 3 % of GDP and to approach at an adequate pace the MTO of a surplus of 0,5 % of GDP. It is also not in line with the Council conclusions of 20 October on the fiscal exit strategy. On the other hand, the government's announced intention to begin with the consolidation from 2011 onwards and reduce the structural deficit by about 0,75 percentage point of GDP every year from 2011 onwards cannot be assessed given that no information is provided on the measures backing such a consolidation strategy.

(15) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme has some gaps in the required and optional data ([2]).

The overall conclusion is that that in view of the downturn and the sound budgetary starting position of Luxembourg the temporary deterioration in the general government balance in 2009 and 2010 partly reflecting the adoption of stimulus measures is appropriate. However, from 2011 the fiscal stance as shown in the programme's 'unchanged policy scenario' cannot be considered in line with the requirements of the Pact, as the government deficit would remain above 3 % of GDP until 2014; there would thus be no consolidation effort to ensure that the deficit is brought below 3 % of GDP and progress towards the MTO would not be adequate either. While the authorities indicate their intention to follow a more ambitious consolidation path with a view to bringing public finances back to balance in 2014 and to achieve the medium-term objective in the following years, this adjustment path cannot be properly assessed in the absence of any information including the underlying measures. More

([2]) In particular, there are no data on sectoral balances with the exception of the general government.

information on these measures would thus be welcome. Concerns remain about the long-term sustainability of public finance, which will have to bear a very heavy burden in the coming decades as the increase in age-related public expenditure is projected to be among the strongest in the whole EU.

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

(i) start fiscal consolidation as from 2011 with a view to bringing the deficit below the 3 % of GDP threshold and thereafter progressing towards the MTO and specify to this effect the measures that will be needed to achieve this consolidation; and

(ii) in view of the significant projected increase in age-related expenditure, improve the long-term sustainability of public finances by reforming the pension system and set a MTO that takes sufficiently into account the implicit liabilities related to ageing.

Comparison of key macroeconomic and budgetary projections

		2008	2009	2010	2011	2012	2013	2014
Real GDP (% change)	**SP Jan 2010**	**0,0**	**– 3,9**	**2,5**	**3,0**	**2,7**	**2,9**	**3,1**
	COM Nov 2009	0,0	– 3,6	1,1	1,8	n.a.	n.a.	n.a.
	SP Oct 2008	*1,0*	*– 0,9*	*1,4*	*4,5*	*n.a.*	*n.a.*	*n.a.*
HICP inflation (%)	**SP Jan 2010**	**4,1**	**4,1**	**0,0**	**2,1**	**1,8**	**n.a.**	**n.a.**
	COM Nov 2009	4,1	0,0	1,8	1,7	n.a.	n.a.	n.a.
	SP Oct 2008	*4,1*	*0,6*	*2,5*	*2,9*	*n.a.*	*n.a.*	*n.a.*
Output gap (1) (% of potential GDP)	**SP Jan 2010**	**1,9**	**– 4,0**	**– 3,4**	**– 2,8**	**– 2,4**	**– 2,0**	**– 1,7**
	COM Nov 2009 (2)	1,7	– 3,9	– 4,6	– 5,0	n.a.	n.a.	n.a.
	SP Oct 2008	*1,1*	*– 2,3*	*– 3,5*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Jan 2010**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
	COM Nov 2009	4,9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	SP Oct 2008	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
General government revenue (% of GDP)	**SP Jan 2010**	**40,2**	**41,6**	**39,6**	**38,3**	**38,5**	**39,0**	**39,5**
	COM Nov 2009	40,2	41,1	39,7	39,4	n.a.	n.a.	n.a.
	SP Oct 2008	*43,2*	*42,8*	*42,8*	*40,3*	*n.a.*	*n.a.*	*n.a.*
General government expenditure (% of GDP)	**SP Jan 2010**	**37,7**	**42,6**	**43,5**	**43,2**	**43,2**	**43,3**	**42,6**
	COM Nov 2009	37,7	43,3	43,9	43,6	n.a.	n.a.	n.a.
	SP Oct 2008	*41,2*	*43,4*	*44,3*	*39,4*	*n.a.*	*n.a.*	*n.a.*
General government balance (% of GDP)	**SP Jan 2010**	**2,5**	**– 1,1**	**– 3,9**	**– 5,0**	**– 4,6**	**– 4,3**	**– 3,1**
	COM Nov 2009	2,5	– 2,2	– 4,2	– 4,2	n.a.	n.a.	n.a.
	SP Oct 2008	*43,2*	*42,8*	*42,8*	*40,3*	*n.a.*	*n.a.*	*n.a.*
Primary balance (% of GDP)	**SP Jan 2010**	**2,8**	**– 0,5**	**– 3,3**	**– 4,3**	**– 3,7**	**– 3,3**	**– 2,1**
	COM Nov 2009	2,7	– 1,6	– 3,6	– 3,6	n.a.	n.a.	n.a.
	SP Oct 2008	*2,3*	*– 0,3*	*– 1,2*	*1,5*	*n.a.*	*n.a.*	*n.a.*
Cyclically adjusted balance (1) (% of GDP)	**SP Jan 2010**	**1,6**	**0,9**	**– 2,2**	**– 3,6**	**– 3,4**	**– 3,3**	**– 2,3**
	COM Nov 2009	1,6	– 0,3	– 2,0	– 1,8	n.a.	n.a.	n.a.
	SP Oct 2008	*2,4*	*1,6*	*0,3*	*n.a.*	*n.a.*	*n.a.*	*n.a.*

		2008	2009	2010	2011	2012	2013	2014
Structural balance (3) (% of GDP)	**SP Jan 2010**	**1,6**	**0,9**	**– 2,2**	**– 3,6**	**– 3,4**	**– 3,3**	**– 2,3**
	COM Nov 2009	1,6	– 0,3	– 2,0	– 1,8	n.a.	n.a.	n.a.
	SP Oct 2008	*2,4*	*1,6*	*0,3*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Government gross debt (% of GDP)	**SP Jan 2010**	**13,5**	**14,9**	**18,3**	**23,9**	**29,3**	**34,1**	**37,4**
	COM Nov 2009	13,5	15,0	16,4	17,7	n.a.	n.a.	n.a.
	SP Oct 2008	*14,4*	*14,9*	*17,0*	*14,3*	*n.a.*	*n.a.*	*n.a.*

Notes:

(1) Output gaps and cyclically adjusted balances from the programmes as recalculated by Commission services on the basis of the information in the programmes.
(2) Based on estimated potential growth of 3,6 %, 2,0 %, 1,9 % and 2,2 % respectively in the period 2008-2011.
(3) Cyclically adjusted balance excluding one-off and other temporary measures. There are no one-off or other temporary measures from year 2010 to year 2014 according to the most recent programme and to the Commission services' autumn 2009 forecast.

Source:

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

COUNCIL OPINION

on the updated convergence programme of Poland, 2009-2012

(2010/C 143/04)

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [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 26 April 2010 the Council examined the updated convergence programme of Poland, which covers the period 2009 to 2012.

(2) With real GDP estimated to have increased by 1,7 %, Poland was the only EU country that recorded positive growth in 2009. This performance reflects a constellation of favourable factors including sound fundamentals at the outset of the crisis, a well capitalised and sound financial sector, the relatively low degree of openness of the economy, a sizeable depreciation of the Polish currency at an early stage of the crisis, as well as timely accommodative monetary and fiscal policies.

While some of the factors that supported growth are of temporary nature — the margin for supportive fiscal policy has largely disappeared and the exchange rate is now appreciating — Poland's economic outlook has improved significantly in recent months. Key challenges for the years ahead will be to bring government finances back to a sustainable position and secure a sustained catching-up process without compromising fiscal and macroeconomic stability. Poland did not use the good economic times (2006-2008) to consolidate its public finances, and the structural government deficit (i.e. the cyclically-adjusted balance net of one-off and other temporary measures calculated in accordance with the commonly agreed method on the basis of the data in updated programme) is estimated to have reached 7 % of GDP in 2009. Based on the April 2009 EDP notification by the Polish authorities of a 2008 government deficit of 3,9 % of GDP, on 7 July 2009 the Council decided on the existence of an excessive deficit and recommended its correction by 2012.

(3) Although much of the observed decline in actual GDP in the context of the crisis is cyclical, the level of potential has also been negatively affected. In addition, the crisis may also affect potential growth in the medium term through lower investment, constraints in credit availability and increasing structural unemployment, though the effects should be less severe in Poland because of the lower scale of capital destruction and Poland's flexible labour market. Moreover, the impact of the economic crisis compounds the negative effects of demographic ageing on potential output and the sustainability of public finances. Against this background it will be essential to accelerate the pace of structural reforms with the aim of supporting potential growth. In particular, in view of Poland's low employment rate and the need for reforms in support of the ongoing catching up process, it will be important to take further measures that foster labour market participation, improve the business environment, and stimulate private R&D spending.

(4) The baseline macroeconomic scenario underlying the budgetary projections in the programme envisages that real GDP growth will accelerate from 1,7 % in 2009 to 3 % in 2010, 4,5 % in 2011 and 4,2 % in 2012. Assessed against currently available information [2] the assumption for real GDP growth in 2010 appears slightly favourable and the assumptions for 2011 and 2012 seem favourable. The programme presents an alternative, 'risk scenario' with lower real GDP growth, at 2,7 % in 2010, 3,7 % in 2011 and 3,5 % in 2012, which appears more plausible. Taking into account recent information, the projection in the programme of a gradual recovery in employment over the period 2010-2012 is plausible, especially as the swift adjustment of real wages seems to be cushioning the effects of the downturn on employment. The programme's projections for inflation, showing a decline to around 2 % in 2010 on the back of appreciating currency and contained wage pressure followed by a moderate rebound thereafter in line with improving economic situation, are realistic.

(5) The programme estimates the general government deficit in 2009 at 7,2 % of GDP. The significant deterioration from a deficit of 3,6 % of GDP in 2008 reflects to a

[1] OJ L 209, 2.8.1997, p. 1. The documents referred to in this text can be found at the following website: http://ec.europa.eu/economy_finance/sgp/index_en.htm

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

large extent the impact of the crisis on government finances, but was also brought about by stimulus measures amounting to about 2 % of GDP which the government implemented in 2009 in line with the European Economic Recovery Plan (EERP). A personal income tax cut (decided in 2007), an increase of public investment, and an indexation of social transfers were the main elements of the stimulus. On the other hand, the deficit outturn in 2009 would have been even worse if deficit-reducing measures estimated at about 1,5 percentage point had not been implemented (reduction of administrative expenditure and increase of dividends from State-owned enterprises). Despite these measures, the structural balance deteriorated by more than 2 percentage points of GDP in 2009, also reflecting over spending in some general government subsectors [1] and unfavourable growth composition.

Despite the high level reached by the structural deficit and projected sharp rebound in economic activity, the programme foresees a gradual exit strategy, with moderate fiscal consolidation planned in 2010-2011.

(6) The programme projects a slight decline in the government deficit to 6,9 % of GDP in 2010. This is to be achieved through a large increase in the revenue ratio (by 2,2 percentage point) which would more than offset a pronounced increase in the expenditure ratio (by 1,9 percentage point), mainly due to an increase in capital spending (partly financed by EU funds). The main consolidation measures are an increase of some excise and quasi-excise duties (about 0,2 % of GDP) and a reduction of wage and salary growth in the central budget (0,3 % of GDP) totalling 0,5 % of GDP. The improvement in the structural balance is estimated at 0,8 percentage point of GDP, and would also reflect favourable growth composition leading to higher than usual tax elasticity. The fiscal effort implied by current plans is smaller than the annual average recommended by the Council in July 2009 for the period 2010-2012 (at least 1,25 percentage point of GDP).

(7) The main goal of the programme's medium-term budgetary strategy is to reduce the deficit below the 3 % of GDP deficit reference value by 2012, in line with the Council recommendation under Article 104(7) TEC. However, the planned adjustment is considerably back-loaded: the headline balance is projected to improve by 0,3 percentage point of GDP in 2010, 1 percentage point of GDP in 2011 and 3 percentage points of GDP in 2012. The structural balance would improve by 0,8-0,9 percentage point of GDP per year in 2010-2011, and by 3 percentage points of GDP in 2012. To compensate for the worse starting position for the headline deficit in 2009 than assumed at the time of the Council recommendation, the average annual structural effort for the period 2010-2012 would be around 1½ percentage of GDP, slightly higher than recommended in the Council recommendation under the excessive deficit procedure. Consolidation in the years 2011-2012 is predominantly expenditure-based but is not supported by sufficiently concrete measures. The total net impact of announced measures, i.e. those included in 'The Plan for the Development and Consolidation of Finances' of 29 January 2010 to which the convergence programme refers extensively, does not exceed 0,5 % of GDP over the 2011-2012 period [2]. The programme confirms the commitment to the medium term objective (MTO) of a government balance of – 1 % of GDP in structural terms. Given the most recent projections and debt level, the MTO more than adequately reflects the objectives of the Pact. However, the programme does not envisage achieving it within the programme period.

(8) The budgetary outcomes could turn out worse than projected in the programme over the whole programme period. Firstly, real GDP growth could turn out to be less favourable than projected, which would translate into lower than expected tax revenue. According to the programme, if the alternative, more cautious and plausible scenario materialises, the deficit in 2012 would be close to 5 % of GDP, and the excessive deficit would not be corrected within the deadline set by the Council. Secondly, the fiscal targets for 2011 and 2012 are not supported by concrete measures. The heavy electoral calendar for the coming two years (presidential and local elections in autumn 2010, parliamentary elections in autumn 2011) raises questions on when such measures will be specified and implemented. Thirdly, Poland has a mixed track record in achieving its general government expenditure targets specified in the subsequent Convergence Programmes updates, and new initiatives to strengthen the fiscal framework may not be sufficient to change this pattern in the time span covered by the programme. The proposed new 'temporary' expenditure rule to be implemented until the 'target' expenditure rule is introduced, covers a very small part of government expenditure (less than 15 %) and will result in a small annual adjustment even if fully implemented (less than 0,2 % of GDP per year in 2011-2012) [3]. Overall, the budgetary outcomes could turn out worse than projected in the programme.

[1] This excludes the central government subsector where spending was under executed in spite of higher revenues.

[2] The 0,5 % of GDP includes the impact of the expenditure rule as specified in the first package of reforms presented to the President.

[3] The programme plans the introduction of two expenditure rules: first a 'temporary' rule covering only a small part of general government expenditure. This rule will be in force until the structural general government deficit reaches the MTO (deficit of 1 % of GDP). Then, the authorities plan to introduce a 'target' expenditure rule (the objective would be to keep the structural deficit at 1 % of GDP), which would cover a larger share of government expenditure

(9) Government gross debt is estimated to have reached 50,7 % of GDP in 2009, up from 47,2 % in 2008. This ratio is projected to increase by 5 percentage points over the programme period reaching the level of around 56 % of GDP in 2012 but remaining below the Treaty reference value, mainly driven by high government deficits. Important privatisation receipts planned for 2010 are projected to contain the increase in the debt ratio. However, in light of still weak market conditions and underperformance of past privatisation plans, receipts may be lower than expected. Under a different macroeconomic scenario and unchanged policies, the Commission services foresaw in their autumn 2009 forecast the debt ratio breaching the 60 % of GDP threshold in 2011. While in view of recent data this forecast appears to be on the high side, the debt ratio in the coming years may be higher than foreseen in the programme.

(10) Medium-term debt projections until 2020 assuming that GDP growth rates will gradually recover to the values projected before the crisis, tax ratios will return to pre-crisis levels and that include the projected increase in age-related expenditure show that the budgetary development envisaged in the programme, taken at face value and with no further policy change, is more than sufficient to stabilise the debt ratio by 2020. The programme refers to reforms supporting the long-term sustainability of public finances (inclusion of uniformed professions in the reformed general pensions, retirement age, farmers' social security fund, and reduction in disability benefits). While very important for government balance and labour market developments in the long-term, these measures are intended to be implemented gradually and, thus, will not have significant effects for the government balance in the programme period.

(11) The long-term budgetary impact of ageing is significantly below the EU average, reflecting the projected decrease in public pension spending. However, the budgetary position in 2009 causes a marked sustainability gap over the long term. Ensuring higher primary surpluses over the medium term, as already foreseen in the programme, would contribute to reducing risks to the sustainability of public finances which were assessed in the Commission 2009 Sustainability Report [1] as medium.

(12) There is scope to improve Poland's fiscal framework. Poland has one type of fiscal rule, based on three debt thresholds (50 %, 55 % and 60 % of GDP, the last one enshrined in the Constitution), the breach of which would trigger increasingly large fiscal consolidation measures. On the expenditure side, the institutional framework does not ensure sufficient expenditure control and results in recurring expenditure slippages. The authorities took action to improve the fiscal framework in 2009. They made the existing debt rule more restrictive, by introducing additional specific provisions on the type of measures to be implemented once public debt exceeds 55 % of GDP (national definition, non-ESA95). The fiscal planning horizon for the central State budget was extended from three to four years. Some reorganisation of the general government took place, aimed at increasing the transparency of public accounts. Finally, the authorities are planning the strengthening of the fiscal framework, which includes 'temporary' and 'target' expenditure rules. However the 'temporary' rule would cover only the non-mandatory part of the central State budget (excluding public investment), which is currently less than 15 % of general government expenditure. While these actions will facilitate future consolidation efforts they are not substitutes for measures needed to support the consolidation path included in the programme.

(13) Looking at the composition of public expenditure, Poland has a relatively large share of public expenditure allocated to social protection at the cost of relatively low spending in some growth-enhancing categories (innovation, R&D) and healthcare. Moreover, there seems to be scope to improve the efficiency of public expenditure in areas such as healthcare and education. As far as the revenue side is concerned, the tax burden is close to the EU average, but the complex system of taxation and tax collection would benefit from further simplification. Since 2005, the Polish authorities have gradually designed and implemented performance budgeting, which is expected to improve both efficiency and effectiveness of government expenditure in the coming years. The 2010 budget has extended the scope of performance budgeting, since additional parts of the general government sector are covered and additional expenditure categories included. The first central budget to be fully covered by performance budgeting is supposed to be implemented in 2013.

(14) Overall, in 2010 the budgetary strategy set out in the programme is broadly consistent with the Council recommendations under Article 104(7) TEC of 7 July 2009. However, taking into account the risks, the budgetary strategy, from 2011, would not seem consistent with the Council's recommendations. The average annual structural

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

effort planned for the period 2010-2012 is 1½ percentage of GDP, slightly higher than recommended in the Council recommendation under the excessive deficit procedure. However, fiscal consolidation is considerably back-loaded, deficit targets are based on favourable growth assumptions, and the planned expenditure savings are not supported by sufficiently concrete measures. In view of Poland's good economic performance during the crisis, the recovery projected by the authorities from 2010, the large structural government deficit, and the authorities' objective to correct the excessive deficit by 2012, a more frontloaded fiscal consolidation strategy would be appropriate. In 2010, the budget should be rigorously implemented, primary current expenditure plans under-executed wherever possible and windfall revenue allocated to deficit reduction. The government deficit targets for 2011-2012 would have to be backed up by sizeable additional measures, which should also ensure an adequate margin in case the baseline macroeconomic scenario included in the programme does not materialise.

(15) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme provides all required and most of the optional data [1]. In its recommendations under Article 104(7) TEC of 7 July 2009, the Council also invited Poland to report on progress made in the implementation of the Council's recommendations in a separate chapter in the updates of the convergence programmes. Poland partly complied with this recommendation. In particular, the detailed measures that are necessary to bring the deficit below the reference value by 2012 and reforms to contain primary current expenditure over the coming years have not been sufficiently spelled out.

The overall conclusion is that while Poland is planning to correct its excessive deficit by 2012 in line with the Council recommendation under the excessive deficit procedure, the fiscal adjustment is considerably backloaded, most of the deficit reduction being projected to take place in 2012, and deficit targets in the programme are subject to significant downside risks, both on the revenue and expenditure side. In view of the recovery projected by the authorities from 2010 and the large structural government deficit a more frontloaded fiscal consolidation strategy would be appropriate. Risks to fiscal targets reflect favourable real GDP growth assumptions, the lack of sizeable sufficiently concrete measures in support of fiscal targets from 2011 on, a history of current expenditure slippages compared to plans and impact of the electoral cycle. Intentions to strengthen the fiscal framework, in particular backed by expenditure rules, are welcome. With respect to the 'temporary' expenditure rule a higher degree of ambition would be appropriate, notably in terms of the share of government finances covered by the rule.

In view of the above assessment and also in the light of the recommendation under Article 104(7) TEC of 7 July 2009 and also given the need to ensure sustainable convergence, Poland is invited to:

(i) implement the 2010 budget rigorously, under-executing primary current expenditure plans wherever possible and allocating windfall revenue to deficit reduction;

(ii) strengthen the planned budgetary adjustment in 2011 in order to achieve the recommended average annual fiscal effort of 1,25 % of GDP in line with the Article 104(7) Recommendation and stand ready to adopt further consolidation measures in 2011 and 2012 in case risks related to the fact that the programme scenario is more favourable than the scenario underpinning the recommendation under Article 104(7) TEC materialise;

(iii) proceed with strengthening the fiscal framework, including through introduction of an expenditure rule covering a larger share of the general government primary expenditure than the 'temporary' rule presented in the Convergence Programme, with appropriate monitoring and enforcement mechanisms. This would require to reduce the share of statutory spending in total expenditures.

Poland is also invited to add, in its next update of the convergence programme, more precise information in the separate chapter on progress made to bring the excessive deficit situation to an end, as requested by the Council in its recommendations under Article 104(7) of 7 July 2009.

Comparison of key macroeconomic and budgetary projections

		2008	2009	2010	2011	2012
Real GDP (% change)	**CP Feb 2010**	**5,0**	**1,7**	**3,0**	**4,5**	**4,2**
	COM Nov 2009	5,0	1,2	1,8	3,2	n.a.
	CP Dec 2008	*5,1*	*3,7*	*4,0*	*4,5*	*n.a.*

[1] In particular, the estimates of the contributions from individual production factors to potential growth and long-term projections for some data series are not provided.

		2008	2009	2010	2011	2012
HICP inflation (%)	**CP Feb 2010**	**4,2**	**4,0**	**2,1**	**2,7**	**3,2**
	COM Nov 2009	4,2	3,9	1,9	2,0	n.a.
	CP Dec 2008	*4,2*	*2,9*	*2,5*	*2,5*	*n.a.*
Output gap (1) (% of potential GDP)	**CP Feb 2010**	**2,4**	**– 0,4**	**– 1,7**	**– 1,5**	**– 1,5**
	COM Nov 2009 (2)	2,6	– 0,4	– 2,2	– 2,3	n.a.
	CP Dec 2008	*1,0*	*– 0,1*	*– 0,6*	*– 0,5*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**CP Feb 2010**	**– 4,0**	**– 0,1**	**– 1,1**	**– 0,0**	**– 0,8**
	COM Nov 2009	– 4,0	– 0,2	– 0,3	– 0,7	n.a.
	CP Dec 2008	*– 4,0*	*– 1,8*	*– 1,3*	*– 1,5*	*n.a.*
General government revenue (% of GDP)	**CP Feb 2010**	**39,6**	**37,4**	**39,6**	**40,3**	**40,3**
	COM Nov 2009	39,6	37,6	38,6	38,3	n.a.
	CP Dec 2008	*39,8*	*40,7*	*40,0*	*39,7*	*n.a.*
General government expenditure (% of GDP)	**CP Feb 2010**	**43,3**	**44,6**	**46,5**	**46,2**	**43,3**
	COM Nov 2009	43,3	44,0	46,1	45,9	n.a.
	CP Dec 2008	*42,6*	*43,2*	*42,4*	*41,7*	*n.a.*
General government balance (% of GDP)	**CP Feb 2010**	**– 3,6**	**– 7,2**	**– 6,9**	**– 5,9**	**– 2,9**
	COM Nov 2009	– 3,6	– 6,4	– 7,5	– 7,6	n.a.
	CP Dec 2008	*– 2,7*	*– 2,5*	*– 2,3*	*– 1,9*	*n.a.*
Primary balance (% of GDP)	**CP Feb 2010**	**– 1,4**	**– 4,8**	**– 4,2**	**– 3,1**	**– 0,2**
	COM Nov 2009	– 1,4	– 3,8	– 4,6	– 4,6	n.a.
	CP Dec 2008	*– 0,3*	*0,1*	*0,2*	*0,5*	*n.a.*
Cyclically-adjusted balance (1) (% of GDP)	**CP Feb 2010**	**– 4,6**	**– 7,0**	**– 6,2**	**– 5,3**	**– 2,3**
	COM Nov 2009	– 4,7	– 6,3	– 6,6	– 6,7	n.a.
	CP Dec 2008	*– 3,1*	*– 2,5*	*– 2,1*	*– 1,7*	*n.a.*
Structural balance (3) (% of GDP)	**CP Feb 2010**	**– 4,6**	**– 7,0**	**– 6,2**	**– 5,3**	**– 2,3**
	COM Nov 2009	– 4,7	– 6,4	– 6,6	– 6,7	n.a.
	CP Dec 2008	*– 3,1*	*– 2,5*	*– 2,3*	*– 1,7*	*n.a.*
Government gross debt (% of GDP)	**CP Feb 2010**	**47,2**	**50,7**	**53,1**	**56,3**	**55,8**
	COM Nov 2009	47,2	51,7	57,0	61,3	n.a.
	CP Dec 2008	*45,9*	*45,8*	*45,5*	*44,8*	*n.a.*

Notes:

(1) Output gaps and cyclically-adjusted balances according to the programmes as recalculated by Commission services on the basis of the information in the programmes.
(2) Based on estimated potential growth of 5,0 %, 4,2 %, 3,7 % and 3,3 % respectively in the period 2008-2011.
(3) Cyclically-adjusted balance excluding one-off and other temporary measures.There are no one-off measures according to the most recent programme and 0,1 % of GDP in 2009, deficit-reducing, in the Commission services' Autumn 2009 forecast.

Source:

Convergence programme (CP); Commission services' autumn forecast (COM); Commission services' calculations.

II

(Information)

INFORMATION FROM EUROPEAN UNION INSTITUTIONS, BODIES, OFFICES AND AGENCIES

EUROPEAN COMMISSION

Authorisation for State aid pursuant to Articles 107 and 108 TFEU

Cases where the Commission raises no objections

(Text with EEA relevance)

(2010/C 143/05)

Date of adoption of the decision	25.1.2010
Reference number of State Aid	N 194/09
Member State	United Kingdom
Region	—
Title (and/or name of the beneficiary)	Liquidation aid to Bradford & Bingley
Legal basis	Banking (Special Provisions) Act 2008 The Bradford & Bingley plc Transfer of Securities and Property etc. Order 2008
Type of measure	Individual aid
Objective	Aid to remedy serious disturbances in the economy, Closure aid
Form of aid	Soft loan, Guarantee, Other forms of equity intervention
Budget	—
Intensity	—
Duration (period)	25.1.2010 — the end of liquidation
Economic sectors	Financial intermediation
Name and address of the granting authority	The Commissioners for Her Majesty's Treasury 1 Horse Guards Road London SW1A 2HQ UNITED KINGDOM
Other information	—

The authentic text(s) of the decision, from which all confidential information has been removed, can be found at:

http://ec.europa.eu/community_law/state_aids/state_aids_texts_en.htm

Date of adoption of the decision	30.3.2010
Reference number of State Aid	NN 11/10
Member State	Ireland
Region	—
Title (and/or name of the beneficiary)	Rescue measure in favour of INBS
Legal basis	Building Societies Act 1989, CIFS Act 2008
Type of measure	Individual aid
Objective	Aid to remedy serious disturbances in the economy
Form of aid	Direct grant
Budget	Overall budget: EUR 2 700 million
Intensity	—
Duration (period)	—
Economic sectors	Financial intermediation
Name and address of the granting authority	Irish Minister for Finance
Other information	—

The authentic text(s) of the decision, from which all confidential information has been removed, can be found at:

http://ec.europa.eu/community_law/state_aids/state_aids_texts_en.htm

Date of adoption of the decision	27.4.2010
Reference number of State Aid	N 41/10
Member State	Latvia
Region	Rīga
Title (and/or name of the beneficiary)	Investīciju atbalsts VAS “Starptautiskā lidosta “Rīga” ”
Legal basis	15.12.2009. MK noteikumi Nr. 1476 “Noteikumi par darbības programmas “Infrastruktūra un pakalpojumi” papildinājuma 3.3.1.4. aktivitāti “Lidostu infrastruktūras attīstība” ”
Type of measure	Individual aid
Objective	Sectoral development, Regional development
Form of aid	Direct grant
Budget	Overall budget: EUR 124 million
Intensity	75 %

Duration (period)	1.5.2010-31.12.2020
Economic sectors	Air transport
Name and address of the granting authority	Satiksmes ministrija Gogoļa iela 3 Rīga, LV-1743 LATVIJA
Other information	—

The authentic text(s) of the decision, from which all confidential information has been removed, can be found at:

http://ec.europa.eu/community_law/state_aids/state_aids_texts_en.htm

Date of adoption of the decision	10.5.2010
Reference number of State Aid	N 116/10
Member State	Germany
Region	—
Title (and/or name of the beneficiary)	Änderung der Regelung für Innovationsbeihilfen an den Schiffbau
Legal basis	Richtlinie des Bundesministeriums für Wirtschaft und Technologie zum Förderprogramm „Innovativer Schiffbau sichert wettbewerbsfähige Arbeitsplätze“
Type of measure	Aid scheme
Objective	Innovation
Form of aid	Direct grant
Budget	Annual budget: EUR 22 million Overall budget: EUR 45 million
Intensity	20 %
Duration (period)	1.5.2010-31.12.2010
Economic sectors	Shipbuilding
Name and address of the granting authority	Bundesministerium für Wirtschaft und Technologie Scharnhorststr. 34-37 10115 Berlin DEUTSCHLAND
Other information	—

The authentic text(s) of the decision, from which all confidential information has been removed, can be found at:

http://ec.europa.eu/community_law/state_aids/state_aids_texts_en.htm

Non-opposition to a notified concentration

(Case COMP/M.5874 — Barclays/Blackstone/Portfolio Hotels)

(Text with EEA relevance)

(2010/C 143/06)

On 21 May 2010, 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:

— in the merger section of the Competition website of the Commission (http://ec.europa.eu/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 (http://eur-lex.europa.eu/en/index.htm) under document number 32010M5874. EUR-Lex is the on-line access to the European law.

Communication in accordance with Article 12(5)(a) of Council Regulation (EEC) No 2913/92 on the information provided by the customs authorities of the Member States concerning the classification of goods in the customs nomenclature

(2010/C 143/07)

Binding Tariff Information ceases to be valid from this day if it becomes incompatible with the interpretation of the customs nomenclature as a result of the following international tariff measures:

Amendments to the Harmonised System Explanatory Notes and the Compendium of Classification Opinions, approved by the Customs Cooperation Council (CCC doc. NC1500 — report of the 44th Session of the HS Committee):

AMENDMENTS TO THE EXPLANATORY NOTES TO BE DONE UNDER ARTICLE 8 PROCEDURE OF THE HS CONVENTION AND CLASSIFICATION OPINIONS EDITED BY THE HS COMMITTEE OF THE WORLD CUSTOMS ORGANISATION

(44th SESSION OF THE HSC IN OCTOBER 2009)

DOC. NC1500

Amendments of the Explanatory Notes of the Nomenclature annexed to the HS Convention

84.15	K/16
84.19	K/18
84.33	K/2
85.36	K/1
90.28	K/4
95.04	K/17

Classification Opinions approved by the HS Committee

3002.10/4	K/9
3002.10/5	K/9
3404.90/1	K/10
3504.00/2	K/11
3824.90/18	K/12
3923.90/1	K/13
4014.90/1	K/14
4016.93/2	K/15
9503.00/9 (Amendment to the legal basis)	K/5

Information regarding the contents of these measures can be obtained from the Directorate-General for Taxation and Customs Union of the European Commission (rue de la Loi/Wetstraat 200, 1049 Bruxelles/Brussel, BELGIQUE/BELGIË) or can be downloaded from the Internet site of this Directorate-General:

http://ec.europa.eu/comm/taxation_customs/customs/customs_duties/tariff_aspects/harmonised_system/index_en.htm

IV

(Notices)

NOTICES FROM EUROPEAN UNION INSTITUTIONS, BODIES, OFFICES AND AGENCIES

EUROPEAN COMMISSION

Interest rate applied by the European Central Bank to its main refinancing operations [1]**:**

1,00 % on 1 June 2010

Euro exchange rates [2]

1 June 2010

(2010/C 143/08)

1 euro =

	Currency	Exchange rate		Currency	Exchange rate
USD	US dollar	1,2155	AUD	Australian dollar	1,4595
JPY	Japanese yen	110,65	CAD	Canadian dollar	1,2766
DKK	Danish krone	7,4393	HKD	Hong Kong dollar	9,4720
GBP	Pound sterling	0,83470	NZD	New Zealand dollar	1,8056
SEK	Swedish krona	9,6163	SGD	Singapore dollar	1,7193
CHF	Swiss franc	1,4183	KRW	South Korean won	1 478,29
ISK	Iceland króna		ZAR	South African rand	9,3929
NOK	Norwegian krone	7,9420	CNY	Chinese yuan renminbi	8,3021
BGN	Bulgarian lev	1,9558	HRK	Croatian kuna	7,2590
CZK	Czech koruna	25,628	IDR	Indonesian rupiah	11 249,90
EEK	Estonian kroon	15,6466	MYR	Malaysian ringgit	4,0203
HUF	Hungarian forint	276,62	PHP	Philippine peso	56,709
LTL	Lithuanian litas	3,4528	RUB	Russian rouble	38,0290
LVL	Latvian lats	0,7093	THB	Thai baht	39,607
PLN	Polish zloty	4,1140	BRL	Brazilian real	2,2262
RON	Romanian leu	4,1868	MXN	Mexican peso	15,7893
TRY	Turkish lira	1,9288	INR	Indian rupee	57,3170

[1] Rate applied to the most recent operation carried out before the indicated day. In the case of a variable rate tender, the interest rate is the marginal rate.

[2] *Source:* reference exchange rate published by the ECB.

NOTICES FROM MEMBER STATES

NOTICE OF APPLICATION FOR AN OIL AND GAS EXPLORATION LICENCE DESIGNATED THE 'COSTA DEL SOLE' LICENCE

REPUBLIC OF ITALY — REGION OF SICILY

REGIONAL MINISTRY OF ENERGY AND PUBLIC UTILITY SERVICES — REGIONAL DEPARTMENT OF ENERGY

SERVICE — REGIONAL OFFICE FOR HYDROCARBONS AND GEOTHERMAL ENERGY (U.R.I.G.)

(2010/C 143/09)

On 18 December 2009, in accordance with Sicilian Regional Law No 14 of 3 July 2000, which transposes and implements Directive 94/22/EC, Apennine Energy s.r.l., having its registered office at Via Alberico II 31, 00193 Rome (Tax Code and VAT No 01348720358) and registered with Rome Chamber of Commerce (No 01348720358), applied to the former Regional Ministry for Industry, Via Ugo La Malfa 87/89, 90146 Palermo, the competent authority for granting mining rights in Sicily Region, for a licence to prospect for oil and gas, conventionally known as the 'Costa del Sole' licence, in an area extending over 4 152 ha (41,52 km^2) on the southern Sicilian coast in the province of Caltanissetta. The municipalities concerned are Butera and Gela.

Along the stretch of coastline between points 'D' and 'E', this area borders on the sea and in the other directions it borders on unlicensed areas.

The prospecting area is enclosed by a continuous line marked out by seven points and a stretch of coastline between points 'D' and 'E'.

The abovementioned points are defined as follows:

A. SW corner of Casa Savorni at 100 m elevation (F. 272 III NE).

B. Trigonometric point at 289 m elevation at Rocca d'Adamo (F. 272 III NE).

C. Trigonometric point at 75 m elevation at Torre Manfria (F. 272 III NE).

D. Point where the extension of the line joining points B and C intersects the coastline (F.272 III NE).

E. Point where the extension of the line joining points F and G intersects the coastline (F.272 III NW).

F. Trigonometric point at 18 m elevation at Castello di Falconara (F.272 III NW).

G. SW corner of Case La Tenutella at 59 m elevation (F. 272 III NE).

Geographical coordinates

Point	Longitude E (M. Mario)	Latitude N
A	1° 42′ 23,39″	37° 09′ 49,46″
B	1° 43′ 35,59″	37° 09′ 41,35″
C	1° 41′ 11,19″	37° 05′ 59,19″
D	1° 41′ 08,14″	37° 05′ 53,11″
E	1° 35′ 57,97	37° 06′ 25,14″
F	1° 36′ 03,05″	37° 06′ 29,39″
G	1° 38′ 33,56″	37° 08′ 41,63″

Interested parties may submit an application for a licence for this area within 90 days of the date of publication of this notice in the *Official Journal of the European Union*. Applications received after that period will be declared inadmissible. The Decree granting the exploration licence will be issued within six months of the closing date for the submission of competing applications. As regards Article 5(1) of Directive 94/22/EC, notice is also given that the criteria on the basis of which prospection, exploration and production licences are granted have already been published in *Official Journal of the European Communities* C 396 of 19 December 1998, with reference to Legislative Decree of the President of the Republic No 625 of 25 November 1996 (published in *Official Gazette of the Italian Republic* No 293 of 14 December 1996), which transposes and implements the abovementioned Directive in Italian law, and were specified in Sicilian Regional Law No 14 of 3 July 2000, cited above (published in *Official Gazette of Sicily Region* No 32 of 7 July 2000).

The conditions and requirements regarding the performance or cessation of activities are laid down in the abovementioned Sicilian Regional Law No 14 of 3 July 2000 and in the Standard Specifications issued by Decree No 91 of 30 October 2003 and Decree No 88 of 20 October 2004 of the Regional Minister for Industry and published in *Official Gazette of Sicily Region* Part I, No 49 of 14 November 2003 and Part I, No 46 of 5 November 2004 respectively.

The application documents have been filed at the Regional Office for Hydrocarbons and Geothermal Energy at the Regional Department of Energy, Via Ugo La Malfa 101, 90146 Palermo PA, ITALIA, where they may be consulted by any interested party.

Palermo, 21 April 2010.

Chief Engineer

Dr. Ing. Salvatore GIORLANDO

V

(Announcements)

PROCEDURES RELATING TO THE IMPLEMENTATION OF THE COMMON COMMERCIAL POLICY

EUROPEAN COMMISSION

Notice concerning the anti-dumping measures in force in respect of imports into the Union of certain side-by-side refrigerators originating in the Republic of Korea: change of the address of a company subject to an individual anti-dumping duty

(2010/C 143/10)

Imports of certain side-by-side refrigerators, originating in the Republic of Korea are subject to a definitive anti-dumping duty, imposed by Council Regulation (EC) No 1289/2006 [1].

Daewoo Electronics Corporation, a company located in the Republic of Korea, whose exports to the Union of certain side-by-side refrigerators are subject to an anti-dumping duty of 3,4 % imposed by Article 1(2) of Regulation (EC) No 1289/2006, has informed the Commission that on 8 August 2008, it changed its address.

The company has argued that the change of address does not affect its right to benefit from the individual duty rate applied to it under its previous address of:

686 Ahyeon-dong
Mapo-gu
Seoul
SOUTH KOREA

The company submitted sufficient evidence to establish that the change of the address was due to an internal reorganisation of the company resulting in a relocation of the company's headquarters.

The Commission has examined the information provided and has concluded that the change of address in no way affects the findings of Regulation (EC) No 1289/2006. Therefore, the reference in Article 1(2) of Regulation (EC) No 1289/2006 to:

Daewoo Electronics Corporation
686 Ahyeon-dong
Mapo-gu
Seoul
SOUTH KOREA

should be read as:

Daewoo Electronics Corporation
Narakeyum Jeodong Building 1
Jeo-dong1(il)-ga
Jung-gu
Seoul
SOUTH KOREA

(1) OJ L 236, 31.8.2006, p. 11.

The Taric additional code A733 shall apply to:

Daewoo Electronics Corporation
Narakeyum Jeodong Building 1
Jeo-dong1(il)-ga
Jung-gu
Seoul
SOUTH KOREA

PROCEDURES RELATING TO THE IMPLEMENTATION OF COMPETITION POLICY

EUROPEAN COMMISSION

Prior notification of a concentration

(Case COMP/M.5818 — Ericsson/LG Electronics/JV)

Candidate case for simplified procedure

(Text with EEA relevance)

(2010/C 143/11)

1. On 26 May 2010, 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 Telefonaktiebolaget LM Ericsson ('Ericsson', Sweden) and LG Electronics Inc. ('LG Electronics', South Korea) acquire within the meaning of Article 3(1)(b) of the Merger Regulation joint control of the undertaking LG-Nortel Co. Ltd ('LG-Nortel', South Korea) by way of purchase of shares.

2. The business activities of the undertakings concerned are:

— For Ericsson: the manufacture and sale of telecommunications equipment and related services to mobile and fixed network operators,

— For LG Electronics: the manufacture and sale of consumer electronics, household products, mobile communications, and IT products,

— For LG-Nortel: the manufacture and sale of carrier network products and solutions, and Enterprise telephony products and solutions.

3. On preliminary examination, the Commission finds that the notified transaction could fall within the scope of the EC Merger Regulation. However, the final decision on this point is reserved. Pursuant to the Commission Notice on a simplified procedure for treatment of certain concentrations under the EC Merger Regulation (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 (+32 22964301), by email to COMP-MERGER-REGISTRY@ec.europa.eu or by post, under reference number COMP/M.5818 — Ericsson/LG Electronics/JV, to the following address:

European Commission
Directorate-General for Competition
Merger Registry
J-70
1049 Bruxelles/Brussel
BELGIQUE/BELGIË

(1) OJ L 24, 29.1.2004, p. 1 (the 'EC Merger Regulation').
(2) OJ C 56, 5.3.2005, p. 32 ('Notice on a simplified procedure').

Prior notification of a concentration

(Case COMP/M.5808 — JSA/Jacquet Metals/IMS)

(Text with EEA relevance)

(2010/C 143/12)

1. On 26 May 2010, the Commission received a notification of a proposed concentration pursuant to Article 4 (and following a referral pursuant to Article 4(5)) of Council Regulation (EC) No 139/2004 [1] by which the undertaking JSA SA ('JSA', Belgium) acquires within the meaning of Article 3(1)(b) of the Merger Regulation the undertaking IMS International Metal Service ('IMS', France).

2. The business activities of the undertakings concerned are:

— JSA SA has sole control of Jacquet Metals, a company active in the distribution of steel products, principally thick stainless steel quarto plates,

— IMS is active in the distribution of steel products.

3. On preliminary examination, the Commission finds that the notified transaction could fall within the scope the EC Merger Regulation. 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 (+32 22964301), by e-mail to COMP-MERGER-REGISTRY@ec.europa.eu or by post, under reference number COMP/M.5808 — JSA/Jacquet Metals/IMS, to the following address:

European Commission
Directorate-General for Competition
Merger Registry
J-70
1049 Bruxelles/Brussel
BELGIQUE/BELGIË

(1) OJ L 24, 29.1.2004, p. 1 (the 'EC Merger Regulation').

PROCEDURES RELATING TO THE IMPLEMENTATION OF COMPETITION POLICY

European Commission

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(1) Text with EEA relevance

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