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I

(Resolutions, recommendations and opinions)

OPINIONS

COUNCIL

COUNCIL OPINION

on the updated stability programme of Malta, 2009-2012

(2010/C 144/01)

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 Malta, which covers the period 2009 to 2012.

(2) The global crisis has affected Malta chiefly through the trade channel, with the impact on the financial sector remaining contained. In 2009, economic activity contracted as exports, but also investment, contracted sharply, while private consumption is estimated to have been relatively stable on the back of resilient employment and some recovery measures in line with the European Economic Recovery Plan (EERP). The concomitant severe drop in imports is estimated to have led to a significant narrowing of the external deficit in 2009.

The impact of the downturn and some non-recurrent expenditure-increasing items in 2008 led to a significant widening of the general government deficit in 2008-2009 compared to 2007. Against this background, and taking into account the high debt ratio, the Council decided on 7 July 2009 on the existence of an excessive deficit in Malta and, on 16 February 2010, adopted a recommendation to correct this situation by 2011. In addition to restoring a sound fiscal position and improving long-term fiscal sustainability, given the expected increase in age-related expenditure, Malta faces the challenge of strengthening competitiveness to improve the economy's resilience to future external shocks. This will require, on the one hand, raising human capital, unlocking business potential and continuing efforts to move towards higher value-added activities and, on the other, promoting an efficient wage setting process that allows a close link between wage and productivity developments.

(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 and possibly 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 Malta it is important to undertake further reforms in the areas of education and competition.

[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 real GDP will return to positive growth in 2010, at 1,1 %, after a 2 % contraction estimated for 2009, followed by a further recovery, to an average rate of 2,6 % over the rest of the programme period.

Assessed against currently available information [1], this scenario appears to be based on plausible real GDP growth assumptions for 2010 and favourable ones thereafter. In addition, as to the composition of growth, the projected increase in domestic demand seems to be on the high side throughout the programme period. The programme's projections for inflation appear to be on the low side.

(5) The programme estimates the general government deficit in 2009 at 3,8 % of GDP. The improvement compared to 2008, when the deficit peaked at 4,7 % of GDP, must be seen against the background of some non-recurrent expenditure-increasing items incurred in that year. The headline deficit excluding these items widened in 2009 because of the impact of the crisis in particular on indirect tax revenue. Recovery measures adopted in line with the European Economic Recovery Plan (EERP) amounting to around 0,7 % of GDP were, according to the authorities, more than offset by compensating measures. According to the programme, fiscal policy is planned to be broadly neutral in 2010 before turning restrictive in 2011, in line with the exit strategy advocated by the Council, and with a view to correcting the excessive deficit by 2011. For 2012, against the background of an assumed high growth rate, the deficit ratio is planned to broadly stabilise, pointing to an expansionary fiscal stance.

(6) At 3,9 % of GDP, the deficit ratio in 2010 is targeted to broadly stabilise compared to 2009. The same evolution is planned for the primary deficit, which is targeted at 0,6 % of GDP. Taken at face value, the 2010 deficit target is in line with the Council recommendation under Article 126(7) of 16 February 2010. The measures in the budget for 2010 have an overall neutral impact on the budgetary position and consist of, on the one hand, further recovery measures to help support the economy and, on the other, consolidation measures.

Revenue is budgeted to increase by 2,4 pps. of GDP in 2010, driven by, in increasing order of importance, (i) discretionary tax-increasing measures and enhanced tax enforcement, (ii) assumed tax buoyancy and (iii) a rise in 'other' revenue underpinned by a rise in EU structural funds. Expenditure is projected to rise by 2,5 pps. of GDP essentially because of higher investment and the rise in 'other' expenditure. The cost of the additional recovery measures is partly counteracted by a decline in the public sector wage bill as a share of GDP, primarily thanks to a favourable base effect (some non-recurrent outlays in 2009) but also reflecting a policy of hiring restrictions. The structural balance, i.e. the cyclically-adjusted balance net of one-off and other temporary measures, calculated according to the commonly agreed methodology, is according to the programme projected to worsen by 0,25 pp. of GDP in 2010, pointing to a broadly neutral fiscal stance.

(7) The main aim of the programme's medium-term budgetary strategy is to bring the deficit below 3 % of GDP by 2011, the deadline for the correction of the excessive deficit set by the Council, and to broadly stabilise the deficit ratio in 2012. In structural terms, the budgetary position would improve by 0,75 pp. of GDP in 2011 but worsen again by 0,5 pp. in 2012, thus moving further away from Malta's medium-term objective (MTO) for the budgetary position. Malta's MTO is a balanced position in structural terms, which given the most recent projections and debt level, reflects the objectives of the Pact. The programme does not envisage achieving the MTO within the programme period. The narrowing of the headline deficit in 2011 is planned to be achieved through a cut in the expenditure ratio which would more than offset a projected fall in the revenue ratio, while the near-stabilisation in 2012 is the result of a further drop in both ratios. These developments are not sufficiently underpinned by concrete measures, although the withdrawal of the temporary recovery measures after 2010 and the continued policy to restrict hiring in the public sector are expected to contribute to expenditure restraint. Annual expenditure growth would moderate to 1,8 % in 2011 and 2,7 % in 2012, from 9,3 % in 2010.

As a share of GDP, compensation of employees, intermediate consumption, public investment and 'other' expenditure all contribute to the overall cut in spending between 2010 and 2012, while social transfers remain stable reflecting relatively strong underlying dynamics of especially pensions. On the revenue side, after the tax buoyancy assumed in the programme in 2010, indirect taxes are projected to fall as a share of GDP in both 2011 and 2012, while direct taxes increase further in 2011 and stabilise in 2012.

(8) The budgetary outcomes could turn out worse than projected in the programme throughout the programme period. In particular, the macroeconomic scenario underlying the budgetary projections appears favourable, especially after 2010. The expected contribution from tax buoyancy and enhanced tax compliance to the budgeted increase in the tax ratio in 2010 seems optimistic and represents a risk for the tax projections

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

throughout the programme period. In addition, expenditure overruns cannot be excluded given recent slippages, the scale of the envisaged retrenchment and the lack of information on concrete measures underpinning the targeted cut in the spending ratio over the programme period. It is noted that, for 2010, the programme states that 'close monitoring of emerging developments in revenue and expenditure components will be made and additional measures will be adopted as necessary'.

(9) The debt ratio is projected to remain above the Treaty reference value throughout the programme period. The programme estimates government gross debt at 66,8 % of GDP in 2009, up from a level below 64 % in 2008. The contraction in real GDP together with a modest primary deficit contributed to the rise in the debt ratio. The debt ratio is projected to increase further in 2010, by almost 2 pps., before declining to around 67 % of GDP in 2012, driven by the assumed favourable economic growth rates and planned return to a small primary surplus in the outer years of the programme. In view of the negative risks to the budgetary targets, the evolution of the debt ratio is likely to be less favourable than projected in the programme.

(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 strategy laid down in the programme for the period until 2012, taken at face value and with no further policy change, would not be enough to stabilise the debt ratio by 2020.

(11) The long-term budgetary impact of ageing in Malta is significantly higher than the EU average. The budgetary position in 2009 as estimated in the programme, compounds the budgetary impact of population ageing on the sustainability gap. Ensuring high primary surpluses over the medium term and implementing reform measures that curb the projected increase in age-related expenditure would contribute to reducing the risks to the sustainability of public finances which were assessed in the Commission 2009 Sustainability Report [1] as high.

(12) The expenditure overruns recorded since 2008, particularly in the areas of compensation of employees and health care, are related to some weaknesses in Malta's fiscal framework. These include the absence of binding expenditure ceilings; shortcomings in budgetary execution discipline; the absence of an independent institution involved in the budgetary process; and limited integration of the medium-term strategy in budgetary formulation. The programme acknowledges the importance of strong fiscal governance for ensuring the achievement of sound and sustainable public finances and reports that the government is actively looking into ways to improve the fiscal institutional framework. Improvements introduced so far are relatively limited in scope. They concern the administration of the provision of public services and the management methods in public administration. It is also planned to introduce a new accounting system for Government.

(13) There appears to be scope for improving public spending efficiency in Malta, particularly in the area of education, health, public infrastructure and general services. Increasing spending efficiency becomes particularly important when trying to contain expenditure growth without compromising the level of services provided. Success in the effort of containing growth of expenditure while increasing its efficiency would allow reallocating resources towards growth-enhancing expenditure categories and increase the effectiveness of the fiscal policy instrument to respond to changing macroeconomic circumstances. The expenditure cuts envisaged in the programme, particularly in the area of compensation of employees and intermediate consumption, are generally intended to rationalise expenditure without affecting the level and quality of services provided, but this will be challenging to achieve. In view of the recent experience whereby companies facing liquidity problems could delay payment of tax dues, tax compliance and enforcement should be enhanced. The programme confirms the government's commitment to intensify efforts to fight tax evasion and abuse in social transfer claims.

(14) Overall, in 2010 the budgetary strategy set out in the programme is broadly consistent with the Council recommendations under Article 126(7). However, in 2011, taking into account the risks to the deficit targets, the budgetary strategy may not be consistent with the Council recommendations. In particular, while the planned structural improvement amounts to the recommended 0,75 pp. of GDP, the consolidation plans for 2011 should be backed up by concrete measures while the authorities should stand ready to adopt further consolidation measures in case risks from less favourable GDP growth and revenue developments and from possible slippages on the expenditure side materialise. Provided these risks are adequately addressed and the consolidation plans fully implemented, the budgetary strategy seems to be sufficient to bring the government debt ratio back on a declining path in 2011-2012, broadly in line with the Council recommendations.

[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.

For the outer year 2012, the programme envisages a move further away from the MTO rather than gradual progress towards its achievement, which is not in line with the requirements of the Stability and Growth Pact. A more ambitious pace of consolidation than foreseen in the programme would also be warranted in view of the high risks to the long-term sustainability of the public finances, while measures to strengthen the intra-year monitoring of public finances as well as the medium-term budgetary framework could help contain the risks to the deficit targets mentioned above.

(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 revised recommendations under Article 126(7) of 16 February 2010 with a view to bringing the excessive deficit situation to an end, the Council also invited Malta to report on progress made in the implementation of the Council's recommendations in a separate chapter in the updates of the stability programmes. Malta partly complied with this recommendation. In particular, the broad measures behind the 1 pp. of GDP budgetary consolidation needed to correct the excessive deficit by 2011 are not fully spelled out.

The overall conclusion is that, according to the programme, the general government deficit ratio is targeted to broadly stabilise in 2010 (at 3,9 % of GDP), followed by a return to just below the 3 % of GDP reference value in 2011, the deadline for the correction of the excessive deficit set by the Council. In 2012, the final year covered by the programme, the deficit ratio is again planned to broadly stabilise instead of making progress towards Malta's medium-term objective of a balanced position in structural terms. Gross government debt would peak at almost 69 % of GDP in 2010 and thereafter decline marginally. The deficit and debt ratios could be higher than planned throughout the programme period, mainly due to (i) assumed tax buoyancy and, especially after 2010, a favourable macroeconomic scenario and (ii) possible expenditure overruns given recent slippages, the scale of the envisaged retrenchment and the lack of information on concrete measures underpinning the targeted cut in the spending ratio over the programme period. While the deficit target for 2010 set in the budget has been confirmed, as recommended by the Council, it will be important to address these risks, by spelling out the concrete measures underlying the strategy and adopting additional consolidation measures if economic growth or revenue increases turn out lower than projected in the programme or if the risk of expenditure slippages materialises. Furthermore, the envisaged strategy for 2012 should be strengthened considerably to be in line with the requirements of the Stability and Growth Pact. In addition to achieving a sound budgetary position and improving long-term sustainability through further reforms to curb the projected rise in age-related expenditure, Malta faces the challenge of strengthening competitiveness to improve the economy's resilience to future external shocks. This will require implementing productivity-enhancing measures and promoting an efficient wage setting process that allows a close link between wage and productivity developments.

In view of the above assessment and also in the light of the recommendation under Article 126(7) TFEU of 16 February 2010, Malta is invited to:

(i) achieve the 2010 deficit target of 3,9 % of GDP, if necessary by adopting additional consolidation measures; back up the strategy to bring the deficit below 3 % of GDP in 2011 with concrete measures while standing 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; and considerably strengthen the strategy for 2012 to ensure an adjustment towards the MTO in line with the requirements of the Stability and Growth Pact; 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) in view of the significant projected increase in age-related expenditure, improve the long-term sustainability of public finances by implementing further reforms of the social security system;

(iii) strengthen the binding nature of the medium-term budgetary framework and improve the monitoring of budget execution throughout the year, and enhance the efficiency of public spending, especially in the area of health.

Malta is also invited to provide more information on the broad measures underpinning the envisaged consolidation measures in the EDP chapter of the stability programme.

Comparison of key macroeconomic and budgetary projections [1]

		2008	2009	2010	2011	2012
Real GDP (% change)	**SP Feb 2010**	**2,1**	**– 2,0**	**1,1**	**2,3**	**2,9**
	COM Nov 2009	2,1	– 2,2	0,7	1,6	n.a
	SP Dec 2008	*2,8*	*2,2*	*2,5*	*2,8*	*n.a*

[1] In particular, the data on the details of the stock-flow adjustment are not provided.

		2008	2009	2010	2011	2012
HICP inflation (%)	**SP Feb 2010**	**4,7**	**1,8**	**1,7**	**2,0**	**2,0**
	COM Nov 2009	4,7	2,0	2,0	2,2	n.a
	SP Dec 2008	*4,5*	*2,7*	*2,3*	*2,0*	*n.a*
Output gap (2) (% of potential GDP)	**SP Feb 2010**	**1,3**	**– 1,8**	**– 1,7**	**– 0,6**	**1,3**
	COM Nov 2009 (3)	2,0	– 1,0	– 0,9	0,1	n.a
	SP Dec 2008	*0,1*	*– 0,3*	*– 0,5*	*0,5*	*n.a*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Feb 2010**	**– 4,9**	**– 1,1**	**– 3,6**	**– 2,2**	**– 1,4**
	COM Nov 2009	– 5,1	– 2,4	– 1,8	– 1,4	n.a
	SP Dec 2008	*– 5,1*	*– 3,1*	*– 2,7*	*0,7*	*n.a*
General government revenue (% of GDP)	**SP Feb 2010**	**40,2**	**41,4**	**43,8**	**43,3**	**42,5**
	COM Nov 2009	40,3	41,2	41,9	42,1	n.a
	SP Dec 2008	*40,6*	*41,7*	*41,8*	*41,9*	*n.a*
General government expenditure (% of GDP)	**SP Feb 2010**	**44,8**	**45,2**	**47,7**	**46,3**	**45,3**
	COM Nov 2009	45,0	45,7	46,3	46,4	n.a
	SP Dec 2008	*43,9*	*43,2*	*42,1*	*40,7*	*n.a*
General government balance (% of GDP)	**SP Feb 2010**	**– 4,7**	**– 3,8**	**– 3,9**	**– 2,9**	**– 2,8**
	COM Nov 2009	– 4,7	– 4,5	– 4,4	– 4,3	n.a
	SP Dec 2008	*– 3,3*	*– 1,5*	*– 0,3*	*1,2*	*n.a*
Primary balance (% of GDP)	**SP Feb 2010**	**– 1,4**	**– 0,5**	**– 0,6**	**0,3**	**0,4**
	COM Nov 2009	– 1,4	– 1,2	– 1,2	– 1,0	n.a
	SP Dec 2008	*0,0*	*1,9*	*3,0*	*4,3*	*n.a*
Cyclically-adjusted balance (2) (% of GDP)	**SP Feb 2010**	**– 5,1**	**– 3,1**	**– 3,3**	**– 2,7**	**– 3,3**
	COM Nov 2009	– 5,4	– 4,2	– 4,1	– 4,4	n.a
	SP Dec 2008	*– 3,4*	*– 1,4*	*– 0,1*	*1,0*	*n.a*
Structural balance (4) (% of GDP)	**SP Feb 2010**	**– 5,4**	**– 3,2**	**– 3,5**	**– 2,8**	**– 3,3**
	COM Nov 2009	– 5,0	– 4,3	– 4,1	– 4,4	n.a
	SP Dec 2008	*– 3,7*	*– 1,7*	*– 0,2*	*0,9*	*n.a*
Government gross debt (% of GDP)	**SP Feb 2010**	**63,6**	**66,8**	**68,6**	**68,0**	**67,3**
	COM Nov 2009	63,8	68,5	70,9	72,5	n.a
	SP Dec 2008	*62,8*	*61,9*	*59,8*	*56,3*	*n.a*

Notes:

(1) The Commission services' autumn 2009 forecast was prepared on a pre-budget basis.
(2) Output gaps and cyclically-adjusted balances according to the programmes as recalculated by Commission services on the basis of the information in the programmes.
(3) Based on estimated potential growth of 1,3 %, 0,8 %, 0,6 % and 0,6 % respectively in the period 2008-2011.
(4) Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0,3 % of GDP in 2008, 0,1 % in 2009, 0,2 % in 2010, 0,1 % in both 2011 and 2012, all deficit-reducing according to the most recent programme, and 0,4 % of GDP in 2008 deficit-increasing and 0,2 % in 2009 deficit-reducing in the Commission services' autumn 2009 forecast.

Source:

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

COUNCIL OPINION

on the updated stability programme of Portugal, 2009-2013

(2010/C 144/02)

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 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 Portugal, which covers the period 2009 to 2013 [2].

(2) The global crisis has caught the Portuguese economy in a situation of sluggish economic growth for almost a decade, reflecting structural weaknesses, notably low productivity and potential GDP growth. After stagnation in 2008, real GDP fell in 2009 by 2,7 % driven by shrinking domestic demand, notably investment and to a lesser extent household consumption, whereas net trade was largely neutral to growth. The unemployment rate rose to 10 % in late 2009. The government deficit reached 9,4 % of GDP in 2009 after 2,8 % of GDP in 2008 as a result of sharply falling activity and the implementation of some stimulus measures, but it also reflects prior weaknesses as revealed by high, even if declining, structural deficits in pre-crisis years. On the basis of a planned government deficit in excess of 3 % of GDP in 2009 and an increasing debt in excess of 60 % of GDP, the Council decided in December 2009 that an excessive deficit existed in Portugal and set a deadline of 2013 for its correction. At the same time, large external imbalances persist despite the slump in GDP, with net external borrowing representing 9,5 % of GDP and a negative net international investment position of over 110 % of GDP at the end of 2009. External imbalances relate to eroded competitiveness, reflecting not only low productivity growth but also insufficient labour costs adjustment in a context of, first, increased competition in global markets, notably in labour-intensive sectors where Portugal used to show a comparative advantage and, second, rather benign financing conditions for a number of years. However, financial turbulence during the crisis has been contained. A lasting improvement in economic performance will require considerable adjustments. In the fiscal domain, consolidation is essential to contain an otherwise increasing public debt that undermines long-term sustainability. At the same time, an overarching objective is to raise potential GDP growth, notably by boosting productivity and create jobs in a durable manner. Continued efforts to that end would also help to narrow the large external imbalance, which will remain a major drag on national income in the coming years given the service of the high external debt. Narrowing the external imbalance will require rebalancing the sources of GDP growth towards the external sector by regaining competitiveness through structural reform efforts and lower labour costs growth vis-à-vis trading partners.

(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 on potential output and public finances of demographic ageing. Against this background it will be essential to accelerate the pace of structural reforms with the aim of raising potential growth. In particular, for Portugal it is important to undertake further reforms in the areas of education and training, competition in services and network industries, and to address labour market issues at large, including segmentation, minding also the strengthening of the adjustment capacity in the EMU context.

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[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 late submission of the programme was largely related to the appointment of a new Cabinet following parliamentary elections in late September 2009 and the adoption of the 2010 Budget Law only in March 2010. The programme was discussed in the Portuguese Parliament on 25 March 2010.

(4) The macroeconomic scenario underlying the programme assumes that real GDP growth will gradually improve from 0,7 % in 2010 to 1,7 % by 2013. The acceleration in economic activity would be driven mainly by a domestic demand recovery, with an additional contribution coming from the external sector. Assessed against currently available information [1], this scenario appears to be based on somewhat favourable assumptions, notably for the outer years of the programme. However growth is projected to be low and the output gap remains negative all along the programme period. In particular, in the medium-term, the outlook for income and consequently for domestic demand may be more constrained by the adjustment needs of both households and corporations' balance sheets, notably linked to rising debt burdens, than foreseen by the programme. The envisaged export performance crucially hinges upon a sustained recovery of demand from major trading partners (mainly euro area economies) and improvements in the competitiveness position of Portuguese exporters. As regards inflation the programme's projections appear realistic for 2010, but may turn out to be on the high side for later years. Net foreign borrowing needs are foreseen to decline only slightly, hovering 8,5 % of GDP in the outer years of the programme, pointing to a further deterioration of the negative international investment position, which could come close to some 130 % of GDP by the programme horizon also driven by a 'snow-ball effect' given low nominal GDP growth.

(5) The programme estimates the general government deficit in 2009 at 9,3 % of GDP [2]. The significant deterioration from a deficit of 2,8 % of GDP in 2008 reflects to a large extent the impact of the crisis on government finances through the free play of automatic stabilisers, but also stimulus measures amounting to 0,75 % of GDP which the government adopted in line with the European Economic Recovery Plan (EERP) and by other discretionary measures [3]. The increase in government expenditure accounted for most of the deterioration in the budget deficit, but combined with also large falling revenue it led to a much worse budgetary outturn (by almost 1,5 % of GDP) than expected at the time the Council issued its recommendation under Article 126(7) of the Treaty on the Functioning of the European Union (TFEU) in December 2009. According to the programme, fiscal policy is planned to turn restrictive in 2010, in line with the exit strategy endorsed by the Council, and with a view to correcting the excessive deficit by 2013 and returning to a sustainable public finances position.

(6) According to the programme, the target for the general government deficit in 2010 stands at 8,3 % of GDP, which is fully aligned with the 2010 Budget Law adopted on 12 March 2010 (see footnote 2). The targeted deficit reduction of 1 percentage point of GDP in 2010 is planned to be driven for 0,75 by an increase in revenue (namely non-tax revenue) and for 0,25 by a fall of expenditure (namely capital expenditure). Apart from the discontinuation of temporary stimulus measures adopted for 2009 and the nominal freeze in public sector wages, the Budget Law does not present new sizeable consolidation measures. The fiscal stance in 2010 as measured by the change in the structural balance, i.e. the cyclically-adjusted balance net of one-off and other temporary measures, is planned to be restrictive, with an improvement of just over 0,75 of a percentage point of GDP, below the average annual fiscal effort of 1,25 % of GDP recommended by the Council under Article 126(7) despite a much worse 2009 deficit outturn.

(7) The main goal of the medium-term budgetary strategy is to bring the deficit below the 3 % of GDP reference value by 2013, in line with the Council recommendation under Article 126(7) TFEU of 2 December 2009. The update targets government deficits of 6,6 %, 4,6 % and 2,8 % of GDP for 2011, 2012 and 2013 respectively. Similarly, the primary balance is aimed to improve gradually from an estimated deficit of 6,4 % of GDP in 2009 up to a deficit of 0,6 % of GDP in 2012 and a surplus of 1,3 % of GDP in 2013. The structural balance is planned to improve by an average of almost 1,75 % of GDP per annum between 2011 and 2013. The planned deficit reduction is based on consolidation measures totalling an impact of 3,5 % of GDP by 2013. Measures cover various areas with the most sizeable budgetary savings concerning social transfers (about 1 % of GDP), capital spending (0,75 % of GDP), public wage bill (0,5 % of GDP), and personal income taxes (0,5 % of GDP). The spending containment seems to be further helped by measures launched in recent years, notably in relation to the government wage bill and old-age pension reforms. Conversely, interest expenditure is assumed to increase to 4,1 % of GDP in 2012 and 2013 from 2,9 % of GDP in 2009, given the projected increase in the debt-to-GDP ratio of about 25 percentage points between end-2008 and end-2012. Taking also into account the gradually accelerating GDP and a gradual return of tax revenue close to its pre-crisis ratio in terms of GDP, three fifths of the deficit reduction over the years 2011-2013 is assumed to be driven by the fall in the expenditure-to-GDP ratio, whereas the increase in the revenue-to-GDP ratio accounts for the other two fifths. Relying primarily on the expenditure side is to be welcome. In nominal terms, revenue and expenditure would grow by around 4,5 % and 1 % per annum respectively over the programme period (primary expenditure would stagnate on average over the period 2011-2013). As communicated by the authorities, the medium-term budgetary objective (MTO) for the Portuguese budgetary position is a structural deficit of 0,5 % of GDP. Given the most recent projections and debt level,

[1] The assessment notably takes into account the Commission services' autumn 2009 forecast. Other information that has become available since then (notably GDP and inflation outturns) has also been used for the risk assessment.

[2] According to data of the EDP notification due before 1 April 2010 made public by the Portuguese Statistical Office after the submission of the programme, the government deficit outturn was 9,4 % of GDP.

[3] These measures concern notably the reduction of the VAT standard rate by one percentage point in July 2008 and measures to support households' income.

the MTO more than adequately reflects the objectives of the Pact, which, however, would not be achieved within the programme period.

(8) The budgetary outcomes could be worse than projected in the programme. The impact of some expenditure and revenue consolidation measures presented in the programme, especially non-tax revenue, capital expenditure and social transfers, might not yield the expected results, including in 2010. From 2011 onwards, there are also the risks associated with any back loaded consolidation strategy, linked to the uncertainty stemming from the fact that the consolidation measures outlined in the programme still need to be adopted and implemented. Additional risks are linked to the lack of specification of some of the announced measures, especially as regards the cut in capital spending, and a somewhat favourable macroeconomic scenario, notably for the outer years. Also, the foreseen rapid recovery of revenue after the sharp shortfalls recorded in 2009 and the favourable elasticity of tax revenue to domestic demand make possible a scenario with lower revenue growth, therefore putting at risk the budgetary targets.

(9) Medium-term debt projections until 2020 that take account of more recent economic developments and projections on the potential growth show that the budgetary development envisaged in the programme, taken at face value, is enough to stabilise the debt-to-GDP ratio by 2020.

(10) Government gross debt is estimated at 77,2 % of GDP at the end of 2009 [1], up from 66,3 % in 2008, reflecting both the sizeable increase in the deficit and the decline in nominal GDP. The debt ratio is projected to increase by a further 12,5 percentage points over the programme period, to reach 90,7 % of GDP in 2012, before declining slightly to 89,8 % of GDP in 2013. That path reflects the high though declining government deficits, coupled with the acceleration in nominal GDP. Yet the 'snow-ball effect' is expected to be positive over the programme period as the implicit average interest rate (averaging 4,5 % per annum between 2010 and 2013) exceeds the nominal GDP growth rate (averaging 3 %). Conversely, the debt path is contained by privatisations proceeds amounting to some 3 % of GDP in cumulative terms over the programme period. In view of the negative risks to the budgetary targets and the macroeconomic scenario, the evolution of the debt ratio is likely to be less favourable than projected in the programme. The government gross debt ratio was above the Treaty reference value in 2009 and is on an increasing trend until 2012 according to the programme.

(11) The long-term budgetary impact of ageing is clearly below the EU average, with pension expenditure showing a more limited increase, as a result of the pension reforms already enacted. The budgetary position in 2009, which worsened significantly according to the programme, compounds the budgetary impact of population ageing on the sustainability gap. Ensuring higher primary surpluses over the medium term, would contribute to reducing the risks to the sustainability of public finances, which were assessed in the Commission 2009 Sustainability Report [2] as medium.

(12) The programme announces the intention to reform the budgetary framework. A major element is the move towards a multi-annual budgetary framework with annual expenditure ceilings. However, not many details are outlined about the renewed budgetary framework, for instance in terms of time, institutions or expenditure categories coverage, the form the expenditure rules will take, or enforcement and correction mechanisms in case of deviations. Besides these changes to ex-ante budget planning, some further changes towards a more integrated reporting of budgetary execution are also envisaged. Overall, these efforts address two aspects where the Portuguese budgetary framework has shown needs of continued improvement, namely planning fiscal policy in the broader medium-term setting and controlling expenditure developments in a more thorough way.

(13) The programme acknowledges the existence of a number of important policy challenges for the coming years beyond fiscal consolidation, such as lifting potential GDP growth and narrowing external imbalances. The programme includes an extensive review of past and future measures aimed at tackling those and other very related issues such as reducing oil dependency, reforming the labour market, improving business environment, stimulating R&D or enlarging the exports basis. Implementing some of those measures in a context of strong fiscal consolidation underscores the need of ensuring the efficiency and effectiveness of public spending, as well as of setting priorities in terms of reform efforts and of public spending. The programme also deals with two aspects relevant for Portuguese public finances, namely public-private partnerships and state-owned enterprises. Concerning the former, a revamped unit to monitor those partnerships is announced. That seems essential

[1] According to data of the EDP notification due before 1 April 2010 made public by the Portuguese Statistical Office after the submission of the programme, the government debt outturn was 76,8 % of GDP.

[2] 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, 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.

given the increased recourse to public-private partnerships over the current decade, which have given rise to sizeable implicit liabilities for the years to come (notably beyond the programme horizon), which should be factored into fiscal sustainability assessments and long-term plans. Regarding state-owned enterprises, the programme outlines changes to their governance and a cap on the growth of the debt of non-financial state-owned enterprises. The aim is to reduce the burden on government finances of loss-making enterprises, including containing the implicit risks steaming from the large and growing debt stock of state-owned enterprises. Yet the annual ceilings for the nominal increases in that debt, although in a decreasing path, are in excess of the assumed nominal GDP growth rates, which may lead to further increase debt-to-GDP ratios for the whole group of state-owned enterprises.

(14) At face value, the budgetary strategy set out in the programme is broadly consistent with the Council Recommendation under Article 126(7) of 2 December 2009. However, taking into account the risks mentioned above, the budgetary strategy might not be fully consistent with the Council Recommendation under Article 126(7) of 2 December 2009. Ensuring the reduction of the deficit below the 3 % of GDP threshold by 2013 might entail a stronger consolidation effort than currently planned. While the average fiscal effort envisaged by the programme is in line with the recommended 1,25 % of GDP per year, this fiscal effort could fall short in view of both the risks and the much worse than expected 2009 deficit outturn. Finally, the strategy may also not be sufficient to bring the debt ratio back on a downward path. Ensuring a correction of the excessive deficit as recommended by the Council is also required in view of the projected fast accumulation of public debt as well as Portugal's entrenched adjustment challenges, notably the narrowing of the large external imbalance.

(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 126(7) of 2 December 2009 with a view to bring the excessive deficit situation to an end, the Council also invited Portugal to report on progress made in the implementation of the Council recommendations in a separate chapter in the updates of its stability programme [2].

The overall conclusion is that the current crisis impact on Portuguese public finances is severe. Yet the actual budgetary situation reflects also prior fiscal weaknesses, notably high — even if declining — structural deficits before the crisis. The stability programme update aims at achieving a government deficit below 3 % of GDP by 2013 through fiscal consolidation over the entire period, leading to a stabilisation of the debt ratio at around 90 % of GDP in 2012-2013. The consolidation efforts are back loaded as they are concentrated in 2011 and beyond. Fiscal consolidation is essential as mounting fiscal deficits and debt are likely to damage medium-term economic growth which is already exposed to negative feedback effects from the large external debt on domestic income. Achieving the ambitious fiscal consolidation path may require efforts beyond those outlined in the programme. First, the outlined revenue performance and expenditure containment may be difficult to attain on the basis of the announced measures, already in 2010. Second, there is the risk that a lower-than-assumed GDP growth would dampen revenue growth and jeopardise the fall in the expenditure-to-GDP ratio over the coming years envisaged in the programme, endangering the planned fiscal consolidation path. In such a context, a functioning medium-term budgetary framework is an essential instrument to contain the risks to the budgetary targets, in particular to support the achievement of the envisaged quasi-freeze of primary expenditure. In addition, fostering the quality of public finances also in the context of a broader reform agenda is paramount to underpin a much needed lift in productivity and potential GDP growth, and to address other key challenges the Portuguese economy is faced with such as boosting competitiveness, narrowing the large external imbalance and supporting employment creation.

In view of the above assessment and also in the light of the recommendation under Article 126(7) TFEU of 2 December 2009, Portugal is invited to:

(i) achieve the 2010 deficit target of 8,3 % of GDP, if necessary by reinforcing the consolidation by adopting additional measures; back-up the strategy to bring the deficit below 3 % by 2013 by the timely implementation of concrete measures; stand ready to adopt further consolidation measures in case the macroeconomic scenario proves more favourable than the scenario underpinning the Article 126(7) recommendation and/or any slippages emerge; seize any opportunity beyond fiscal efforts, including from better economic conditions, to accelerate the reduction of the gross debt ratio towards the 60 % of GDP reference value;

(1) In particular, data on deflators of public consumption and of investment, and on general government expenditure by function are not provided.

(2) Portugal materially complied with this recommendation, although the reporting was not in a separate chapter but integrated in the chapter on the medium-term budgetary strategy.

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

(iii) enhance the quality of public finances, along the lines envisaged in the programme, notably by improving the efficiency and effectiveness of public spending in the various areas of government action; decisively address the situation of loss-making state-owned enterprises; and factor into the fiscal sustainability position the spending commitments and risks arising from public-private partnerships;

(iv) frame fiscal consolidation measures together with efforts to raise productivity and potential GDP growth in a sustained way, to boost competitiveness and to narrow the large external imbalances, which will also help improving the sustainability of public finances.

Comparison of key macroeconomic and budgetary projections

		2008	2009	2010	2011	2012	2013
Real GDP (% change)	**SP Mar 2010**	**0,0**	**– 2,7**	**0,7**	**0,9**	**1,3**	**1,7**
	COM Nov 2009	0,0	– 2,9	0,3	1,0	n.a.	n.a.
	SP Jan 2009	*0,3*	*– 0,8*	*0,5*	*1,3*	*n.a.*	*n.a.*
HICP inflation (%)	**SP Mar 2010**	**2,7**	**– 0,9**	**0,8**	**1,9**	**1,9**	**2,0**
	COM Nov 2009	2,7	– 1,0	1,3	1,4	n.a.	n.a.
	SP Jan 2009	*2,6*	*1,2*	*2,0*	*2,0*	*n.a.*	*n.a.*
Output gap [1] (% of potential GDP)	**SP Mar 2010**	**0,5**	**– 2,2**	**– 1,9**	**– 1,6**	**– 1,3**	**– 0,8**
	COM Nov 2009 [2]	– 0,1	– 2,9	– 3,0	– 2,6	n.a.	n.a.
	SP Jan 2009	*– 0,4*	*– 2,1*	*– 2,5*	*– 2,5*	*n.a.*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Mar 2010**	**– 10,3**	**– 9,4**	**– 9,3**	**– 9,1**	**– 8,7**	**– 8,3**
	COM Nov 2009	– 10,3	– 8,5	– 8,6	– 8,6	n.a.	n.a.
	SP Jan 2009	*– 10,5*	*– 9,2*	*– 8,4*	*– 7,6*	*n.a.*	*n.a.*
General government revenue (% of GDP)	**SP Mar 2010**	**43,2**	**39,7**	**40,5**	**41,1**	**41,8**	**42,6**
	COM Nov 2009	43,2	43,7	43,5	43,3	n.a.	n.a.
	SP Jan 2009	*43,5*	*44,1*	*43,6*	*43,6*	*n.a.*	*n.a.*
General government expenditure (% of GDP)	**SP Mar 2010**	**45,9**	**49,1**	**48,8**	**47,7**	**46,5**	**45,4**
	COM Nov 2009	45,9	51,6	51,5	52,0	n.a.	n.a.
	SP Jan 2009	*45,8*	*48,0*	*46,5*	*45,9*	*n.a.*	*n.a.*
General government balance (% of GDP)	**SP Mar 2010**	**– 2,7**	**– 9,3**	**– 8,3**	**– 6,6**	**– 4,6**	**– 2,8**
	COM Nov 2009	– 2,7	– 8,0	– 8,0	– 8,7	n.a.	n.a.
	SP Jan 2009	*– 2,2*	*– 3,9*	*– 2,9*	*– 2,3*	*n.a.*	*n.a.*
Primary balance (% of GDP)	**SP Mar 2010**	**0,2**	**– 6,4**	**– 5,1**	**– 2,8**	**– 0,6**	**1,3**
	COM Nov 2009	0,2	– 5,0	– 4,9	– 5,2	n.a.	n.a.
	SP Jan 2009	*0,8*	*– 0,6*	*0,4*	*1,1*	*n.a.*	*n.a.*
Cyclically-adjusted balance [1] (% of GDP)	**SP Mar 2010**	**– 2,9**	**– 8,3**	**– 7,5**	**– 5,9**	**– 4,1**	**– 2,5**
	COM Nov 2009	– 2,6	– 6,6	– 6,7	– 7,5	n.a.	n.a.
	SP Jan 2009	*– 2,0*	*– 3,0*	*– 1,8*	*– 1,2*	*n.a.*	*n.a.*

		2008	2009	2010	2011	2012	2013
Structural balance [3] (% of GDP)	**SP Mar 2010**	**– 2,9**	**– 8,3**	**– 7,5**	**– 5,9**	**– 4,1**	**– 2,5**
	COM Nov 2009	– 3,5	– 6,6	– 6,7	– 7,5	n.a.	n.a.
	SP Jan 2009	*– 2,0*	*– 3,0*	*– 1,8*	*– 1,2*	*n.a.*	*n.a.*
Government gross debt (% of GDP)	**SP Mar 2010**	**66,3**	**77,2**	**86,0**	**89,4**	**90,7**	**89,8**
	COM Nov 2009	66,3	77,4	84,6	91,1	n.a.	n.a.
	SP Jan 2009	*65,9*	*69,7*	*70,5*	*70,0*	*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 0,6 %, 0,0 %, 0,3 % and 0,7 % respectively in the period 2008-2011.
(3) Cyclically-adjusted balance excluding one-off and other temporary measures. There are no one-off and other temporary measures in the programme and there are 0,8 % of GDP in year 2008, all deficit-reducing, in 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 Romania, 2009-2012

(2010/C 144/03)

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 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 Romania, which covers the period 2009 to 2012.

(2) With an average annual GDP growth rate of 6,8 % between 2004 and 2008, Romania was one of the fastest growing EU Member States. Growth was driven by a domestic demand boom for both consumption and investment, which was fuelled by a rapid financial deepening, high capital inflows and steadily increasing income expectations. This, together with high wage inflation, caused the sharp increase in the current account deficit to 12,3 % of GDP in 2008. In addition, years of pro-cyclical budgetary policies led to a sizeable deterioration in the underlying fiscal position, with the structural deficit (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) rising to 8,5 % of GDP in 2008. The sudden increase in risk aversion during the financial crisis caused markets to become increasingly concerned about these imbalances. Capital inflows plunged and pressures on the exchange rate increased, resulting in a cumulative depreciation by about 30 % of the leu against the euro between August 2007 and January 2009. The drop in capital inflows, the balance-sheet effects of the currency depreciation and a sharp decline in export demand caused a severe recession in late 2008 and the first half of 2009, which was reflected in a 7,1 % decline of GDP in 2009. The National Bank of Romania lowered its key rate by a total 325 basis points to 7,0 % between February 2009 and February 2010. The current account deficit narrowed to around 4,25 % of GDP in 2009.

(3) Given the strains generated by these developments, the authorities decided to seek external financial support [2] while committing to implement a comprehensive economic policy programme aimed at addressing not only the above-mentioned external and fiscal imbalances, but also structural bottlenecks that limit competitiveness and progress in terms of real convergence. In view of the deterioration of the country's fiscal position, the Council decided on 7 July 2009 on the existence of an excessive deficit in Romania and recommended its correction by 2011. On 16 February 2010 the Council concluded that Romania had taken effective action to correct the excessive deficit and, given the sharper-then-anticipated deterioration in economic activity in 2009, extended the deadline for correction until 2012.

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

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

(5) The macroeconomic scenario underlying the programme envisages that real GDP growth will turn positive in 2010 (1,3 %) and gradually accelerate to 3,7 % by 2012. Assessed against currently available information and in particular the worse-than-expected outcome for the fourth quarter of 2009, this scenario appears to be based on slightly favourable growth assumptions for 2010. The macroeconomic scenario for 2011-2012 appears to be based on plausible growth assumptions. Furthermore, external and fiscal imbalances that contributed to the severity of the recession in Romania are expected to continue to unwind. However, the programme's projections for inflation (3,7 % in 2010, 3,2 % in 2011 and 2,8 % in 2012) appear to be on the low side given projected developments in wage and labour productivity growth, the recent recovery in international energy prices, and possible further increases in administered prices. On the other hand, inflationary pressures may be offset by a possible appreciation of the leu against the euro. The expected reduction in the unemployment rate from 8,4 % in 2009 to 7,7 % in 2010 appears rather difficult to be reached at this early stage of the economic recovery.

(6) The programme estimates that the general government deficit in 2009 equalled 8,0 % of GDP, which is slightly above target (7,8 %) due to an increase in government payment arrears. The significant deterioration from the 5,5 % of GDP deficit recorded in 2008 reflects to a large extent the impact of the crisis on government finances. The deterioration of the deficit was mainly due to a shortfall in revenue, with the sharpest drops observed in VAT receipts and in social security contributions. Moreover, absorption of EU funds and non-tax revenue were lower than anticipated. On the expenditure side, the government made a substantial fiscal consolidation effort in 2009 to contain the increase in the deficit. Measures included a restructuring of state agencies and cuts in goods and services spending. However, the impact of these measures was lower than budgeted at the beginning of the year. As a result, additional measures, such as the obligation of workers in the public sector to take ten days of non-paid leave, had to be taken. These measures resulted in a 1 % of GDP improvement in the structural balance in 2009. Given the tight budgetary constraints, the estimated budgetary impact of the stimulus measures adopted in line with the European Economic Recovery Plan (EERP) was limited, amounting to 0,2 % of GDP in both 2009 and 2010. In line with the exit strategy advocated by the Council, and with a view to correcting the excessive deficit by 2012, policies aimed at fiscal consolidation are planned to continue over the coming years.

(7) The 2010 budget adopted by Parliament in January 2010 targets a deficit of 6,3 % of GDP. In line with the policy conditions under the balance-of-payments support programme, the planned adjustment is mainly expenditure driven: the measures imply expenditure cuts of around 2,2 % of GDP. The main expenditure cuts are: a public sector wage freeze and cuts in public sector employment which contribute to a 0,8 % of GDP reduction of the public wage bill; cuts in public spending on goods and services contributing to a 0,5 % of GDP reduction in intermediate consumption by the general government sector; a pension freeze, which contributes to a 0,8 % of GDP reduction in social payments; and a cut in subsidies equivalent to 0,2 % of GDP. The impact of these measures is partially offset by expenditure increases elsewhere yielding a net reduction in the ratio of primary expenditure to GDP by 1,3 percentage points of GDP. In particular, investment spending should increase by 0,2 % of GDP, also in view of the planned increase in the use of EU structural funds. The ratio of government revenue to GDP should increase by around 0.6 percentage points of GDP, including the (one-off) proceeds from the reimbursement of tax arrears (the Rompetrol bond) worth 0,5 % of GDP. The achievement of the above described net expenditure cuts and revenue increases would imply a 1,7 % of GDP improvement of the general government balance in 2010 (taking into account an increase in interest payments of 0,3 % of GDP over the previous year). Taking into account the widening of the output gap, this corresponds to a sizable improvement in the structural balance, by 2,25 % of GDP (as recalculated by the Commission services in accordance with the commonly agreed methodology on the basis of the information provided in the programme).

(8) The main goal of the medium-term strategy in the convergence programme is to bring the deficit below the 3 %-of-GDP reference value by 2012, in line with the Council Recommendation under Article 126(7) of 16 February 2010. The programme sets out a gradual path for bringing down the headline deficit from 6,3 % of GDP in 2010 to 4,4 % of GDP in 2011 and 3.0 % of GDP in 2012. The primary balance follows a similar trend. The (recalculated) structural balance shows a front-loaded adjustment. According to the programme, the annual average fiscal effort in the years 2010-2012 would amount to around 1,75 % of GDP, which is in line with the Council recommendation under the Excessive Deficit Procedure. Most of the adjustment is expenditure based, with primary expenditure being expected to gradually decline from 37,6 % of GDP in 2009 to 33,3 % of GDP in 2012. Government revenue is projected to increase from 31,1 % of GDP in 2009 to 31,7 % of GDP in 2010 and to level off thereafter. The structural consolidation measures taken to reach the 2010 budgetary target will also facilitate the achievement of the 2011 and 2012 fiscal targets. As communicated by the authorities, the medium term objective (MTO) for Romania is a structural deficit of 0,7 % of GDP. Given the most recent projections and debt level, the MTO reflects the objectives of the Pact. The programme does not envisage achieving the MTO over the programme period.

(9) The deficit outcome for 2010 could be worse than projected in the programme given that some of the measures aimed at reducing expenditure, such as the reduction in public employment, are socially and politically difficult to carry out. Moreover, it may be difficult to fully collect one-off proceeds from the reimbursement of the Rompetrol bond, which is assumed to bring in additional revenue worth 0,5 % of GDP. However, the Romanian government has committed itself within the framework of the balance-of-payments support programme to implement additional measures in case those currently agreed upon do not yield the necessary savings to achieve the budget deficit target for this year. Similarly, it may not be easy to achieve the programme targets in the years beyond 2010, particularly in light of the potential negative impact of the election cycle on public finances. Another potential medium-term risk is the accumulation of arrears by public enterprises which if not solved can have negative consequences for the budget should the government be obliged to intervene at some stage. Finally, the programme does not specify the measures that will be taken to bring the deficit from 6,3 % of GDP in 2010 to 3,0 % of GDP in 2012. This information is expected to be included in the Medium-Term Budgetary Framework (MTBF) for 2011-2013, which should be adopted by May 2010.

(10) According to the convergence programme, government gross debt is estimated at 23 % of GDP in 2009, up from 13,6 % the year before. The main drivers of the increase in the debt-to-GDP ratio were a sharp rise in the deficit, the decline in GDP, the rise in interest payments and the valuation effect stemming from the depreciation of the exchange rate. While remaining well below the Treaty reference value, the debt ratio is projected to increase by a further 6,7 percentage points over the programme period, to 29,7 % of GDP in 2012, mainly driven by high government deficits. The projected evolution of the debt ratio may be less favourable if the budgetary targets set in the programme are not achieved.

(11) Medium-term debt projections until 2020 assume that GDP growth rates and tax ratios will only gradually recover to the values projected before the crisis. This would imply that the budgetary strategy envisaged in the programme, taken at face value and with no further policy change, is not sufficient to stabilise the debt ratio by 2020.

(12) The long-term budgetary impact of ageing is clearly above the EU average, mainly due to a high projected increase in pension expenditure. The budgetary position in 2009, as estimated in the programme, compounds the budgetary impact of population ageing on the sustainability gap. Reducing the primary deficit over the medium term, as foreseen in the programme, and implementing the draft pension reform agreed together with the international financial institutions in the context of the balance-of-payments assistance programme for Romania, which is aimed at curbing the substantial increase in age-related expenditures, will contribute to reducing the risks to the sustainability of public finances which were assessed in the Commission 2009 Sustainability Report [1] as high.

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

(14) An overarching priority and challenge for the Government is to improve the effectiveness and efficiency of public administration, both at the central and local level. Problem analysis, the fiscal governance framework, budget planning and execution as well as the enforcement of policies are improving within the context of multilateral assistance from international financial institutions. However further progress needs to be made in order to avoid a deterioration of the access to and quality of the public services as well as the business environment more generally. In order to address the specific performance challenges in individual ministries as well as the systemic problems requiring a government wide approach, a functional review of the public administration is about to start.

[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.

In addition, specific measures are envisaged to improve the efficiency of tax management and to strengthen central government control over spending by local authorities and state owned enterprises. The authorities have adopted a plan to tackle undeclared work, which focuses on measures to increase the efficiency of the labour inspection. The authorities are also working on improving the effectiveness and efficiency of public education and R&D spending. Finally, the Government intends to take concrete measures to increase the low rate of absorption of EU Structural Funds.

(15) Overall, in 2010 the budgetary strategy set out in the programme is broadly consistent with the Council Recommendation under Article 126(7). Nevertheless, the government deficit could turn out worse than projected in 2010 due notably to the political and social difficulty of carrying out some of the reforms envisaged. If these risks materialise, the contingency measures currently being designed by the authorities will need to be implemented. From 2011 on, taking into account the lack of specific consolidation measures in the programme, the budgetary strategy may not be fully consistent with the Council Recommendation under Article 126(7). In particular, the programme does not provide details on the additional consolidation measures to be taken in 2011 and 2012 in order to achieve the fiscal targets. Such detail should be forthcoming in the Medium-Term Budgetary Framework (MTBF) for 2011-2013 to be adopted by end May 2010. For the period 2010-2012 as a whole, the budgetary scenario in the programme implies an average annual fiscal effort of 1,75 %, which is in line with the Council Recommendation under Article 126(7), but subject to the same risks as the budget targets.

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

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

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

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

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

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

Comparison of key macroeconomic and budgetary projections

		2008	2009	2010	2011	2012
Real GDP (% change)	**CP Mar 2010**	**7,3**	**– 7,0**	**1,3**	**2,4**	**3,7**
	COM Nov 2009	6,2	– 8,0	0,5	2,6	n.a.
	CP Jun 2009	*7,1*	*– 4,0*	*0,1*	*2,4*	*n.a.*

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

		2008	2009	2010	2011	2012
HICP inflation (%)	**CP Mar 2010**	**7,9**	**5,6**	**3,7**	**3,2**	**2,8**
	COM Nov 2009	7,9	5,7	3,5	3,4	n.a.
	CP Jun 2009	*7,9*	*5,8*	*3,5*	*3,2*	*n.a.*
Output gap (1) (% of potential GDP)	**CP Mar 2010**	**9,5**	**– 1,7**	**– 3,3**	**– 3,7**	**– 2,7**
	COM Nov 2009 (2)	10,0	– 2,2	– 4,4	– 4,3	n.a.
	CP Jun 2009	*8,7*	*0,5*	*– 2,5*	*– 2,9*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**CP Mar 2010**	**– 11,2**	**– 3,9**	**– 3,9**	**– 3,9**	**– 3,7**
	COM Nov 2009	– 11,8	– 5,0	– 5,1	– 5,2	n.a.
	CP Jun 2009	*– 11,9*	*– 6,3*	*– 5,4*	*– 5,2*	*n.a.*
General government revenue (% of GDP)	**CP Mar 2010**	**32,8**	**31,1**	**31,7**	**31,9**	**31,8**
	COM Nov 2009	32,8	31,6	31,8	32,0	n.a.
	CP Jun 2009	*33,1*	*33,2*	*33,7*	*34,2*	*n.a.*
General government expenditure (% of GDP)	**CP Mar 2010**	**38,4**	**39,1**	**38,1**	**36,4**	**34,8**
	COM Nov 2009	38,4	39,4	38,6	37,9	n.a.
	CP Jun 2009	*38,5*	*38,3*	*37,8*	*37,0*	*n.a.*
General government balance (% of GDP)	**CP Mar 2010**	**– 5,5**	**– 8,0**	**– 6,3**	**– 4,4**	**– 3,0**
	COM Nov 2009	– 5,5	– 7,8	6,8	– 5,9	n.a.
	CP Jun 2009	*– 5,4*	*– 5,1*	*– 4,1*	*– 2,9*	*n.a.*
Primary balance (% of GDP)	**CP Mar 2010**	**– 4,8**	**– 6,5**	**– 4,5**	**– 2,6**	**– 1,6**
	COM Nov 2009	– 4,8	– 6,2	– 5,0	– 3,9	n.a.
	CP Jun 2009	*– 4,7*	*– 3,6*	*– 2,4*	*– 1,4*	*n.a.*
Cyclically-adjusted balance (1) (% of GDP)	**CP Mar 2010**	**– 8,5**	**– 7,5**	**– 5,2**	**– 3,2**	**– 2,1**
	COM Nov 2009	– 8,5	– 7,1	– 5,5	– 4,6	n.a.
	CP Jun 2009	*– 8,2*	*– 5,3*	*– 3,3*	*– 2,0*	*n.a.*
Structural balance (3) (% of GDP)	**CP Mar 2010**	**– 8,5**	**– 7,5**	**– 5,2**	**– 3,2**	**– 2,1**
	COM Nov 2009	– 8,5	– 7,1	– 5,5	– 4,6	n.a.
	CP Jun 2009	*– 8,2*	*– 5,3*	*– 3,3*	*– 2,0*	*n.a.*
Government gross debt (% of GDP)	**CP Mar 2010**	**13,6**	**23,0**	**28,3**	**29,4**	**29,7**
	COM Nov 2009	13,6	21,8	27,4	31,3	n.a.
	CP Jun 2009	*13,6*	*18,0*	*20,8*	*22,0*	*n.a.*

Notes:

(1) Output gaps and cyclically-adjusted balances according to the programmes as recalculated by Commission services on the basis of the information in the programmes.
(2) Based on estimated potential growth of 5,1 %, 3,4 %, 2,9 % and 2,5 % respectively in the period 2008-2011.
(3) Cyclically-adjusted balance excluding one-off and other temporary measures.

Source:

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

COUNCIL OPINION

on the updated stability programme of Slovakia, 2009-2012

(2010/C 144/04)

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 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 Slovakia, which covers the period 2009 to 2012.

(2) With an average real GDP growth rate of over 7 % over the period 2003-2008, Slovakia was one of the best performing EU countries during the boom phase. Sound macroeconomic policies over that period allowed avoiding large macroeconomic imbalances, which enabled Slovakia to adopt the euro in January 2009. However, given its large trade openness, the Slovak economy was strongly affected by the crisis. Real GDP is estimated to have fallen by 4,7 % in 2009, and the depreciation of neighbouring countries' currencies implied a further appreciation of Slovakia's real effective exchange rate.

To contain the effects of the crisis, the authorities allowed a full operation of automatic stabilisers and, in line with the European Economic Recovery Plan, adopted anti-crisis measures in November 2008 and February 2009 (0,5 % of GDP for both 2009 and 2010). With the government deficit expected at some 6 % of GDP in 2009, on 2 December 2009 the Council decided on the existence of an excessive deficit and recommended its correction by 2013. Considering the weakening of Slovakia's external competitiveness due to temporary depreciation of neighbouring countries' currencies and widening fiscal imbalances during the crisis, a credible and sustainable reduction of the government deficit should be a key element of the authorities' strategy for the coming years.

(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 Slovakia it is important to undertake reforms to reduce regulation and administrative burdens on businesses, to improve the functioning of the labour market, and to improve cost competitiveness position relative to trade partners, including through wage moderation.

(4) The macroeconomic scenario underlying the programme projects real GDP growth at 1,9 % in 2010, 4,1 % in 2011 and 5,4 % in 2012. Assessed against currently available information [2], this scenario appears to be based on plausible growth assumptions in 2010 and favourable assumptions in 2011 and 2012.

The projections for the outer years of the programme may not reflect the degree of prudence that should underpin fiscal consolidation strategies, especially given the unusually high uncertainties in the current post-crisis environment. Consistent with the assumed recovery, the programme projection for inflation is higher by about 1 pp. in 2011 than in the Commission services' autumn 2009 forecast, and the unemployment rate is projected to decline more rapidly.

(5) The programme estimates the government deficit in 2009 at 6,3 % of GDP, up from 2,3 % of GDP in 2008. The full operation of automatic stabilisers in 2009 triggered a marked decline in revenue and a sizeable increase in social spending. Stimulus measures adopted by the government in the context of the European Economic Recovery Plan (EERP) did not affect the deficit as they were financed by reallocations of spending within the budget. Some of the anti-crisis measures will remain in place in 2010. Nevertheless, in line with the exit strategy

[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.

advocated by the Council, and with a view to correcting the excessive deficit and bringing the fiscal position to more sustainable levels, the government plans a front-loaded consolidation of public finances over the programme period starting in 2010.

(6) For 2010, the programme targets a general government deficit of 5,5 % of GDP. The expenditure to GDP ratio is expected to fall by 1.1 percentage point of GDP, reflecting savings in goods and services expenditure, a moderate increase in public wages, and cuts in public investment. The revenue to GDP ratio is projected to decline by 0,3 percentage point of GDP, reflecting a temporary increase of tax allowances and in-work benefits, and a decline in dividends from public companies. The planned measures are expected to lower the general government deficit by about 1 percentage point of GDP. The fiscal target for 2010 implies a sizable improvement of the structural balance (i.e. cyclically-adjusted balance net of one-off and other temporary measures), by about 1,25 percentage points of GDP, which is in line with the Council recommendation under the excessive deficit procedure.

(7) The main aim of the programme's budgetary strategy is to reduce the general government deficit to 3 % of GDP in 2012, i.e. one year earlier than recommended by the Council under the excessive deficit procedure. The headline deficit is expected to fall from 5,5 % of GDP in 2010 to 4,2 % and 3,0 % of GDP in 2011 and 2012, respectively. Two thirds of the reduction of the deficit between 2010 and 2012 would reflect a frontloaded structural improvement (as measured according to the commonly agreed methodology applied to the information provided in the programme); the remaining third would result from favourable cyclical developments. The main drivers of the structural improvement are significant planned cuts in government consumption and capital expenditures. According to the programme, the annual average fiscal consolidation effort in the years 2010-2012, recalculated according to the commonly agreed method, would amount to around 1 % of GDP, which is in line with the Council recommendation under the excessive deficit procedure. Consolidation is planned to continue in the years after 2012 with a view to progressing towards the medium-term budgetary objective (MTO), which is a balanced budget 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 in 2010 could turn out somewhat worse than projected in the programme. There are, in particular, uncertainties on the expenditure side, where some measures may not yield the expected savings (e.g. reduction of spending in goods and services). Moreover, the projection for the balance of local governments seems optimistic in view of the assumed impact of crisis on revenues of these entities in 2010. Uncertainties to fiscal targets are larger for the outer years. In particular, the programme is based on favourable macroeconomic assumptions in 2011 and 2012, implying that negative revenue surprises are possible. Furthermore the envisaged measures on the expenditure side, especially those related to the reduction of government consumption, will have to be specified in more details to enhance credibility of the consolidation plan.

(9) According to the stability programme government gross debt increased from 27,7 % of GDP in 2008 to 37,1 % of GDP in 2009. The increase reflects the high deficit and the significant contraction of real GDP in 2009. While remaining well below the Treaty reference value, the debt ratio is projected to increase further in 2010 and 2011, when it would reach 42,5 % of GDP, and to slightly decline in 2012, to 42,2 % of GDP. The evolution of the debt ratio is likely to be less favourable than projected in the programme, especially after 2010, in view of the risks identified for budgetary consolidation compounded by the possibility of less favourable real GDP growth than assumed in the programme.

(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 expenditures 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 ration by 2020.

(11) The long-term budgetary impact of ageing population is slightly higher than the EU average, due to a relatively high increase in pension expenditure during the coming decades. In addition, the budgetary position in 2009 compounds the budgetary impact of population ageing on the sustainability gap. Achieving higher primary surpluses over the medium term together with structural reforms, as foreseen in the programme, and reforming the pension system, would contribute to reducing the risks to the sustainability of public finances which were assessed in the Commission 2009 Sustainability Report [1] as high.

[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.

(12) Slovakia's fiscal policy is based on a well-defined and detailed three-year fiscal framework. Nevertheless, medium-term expenditure targets are largely indicative and typically subject to large revisions, which over time undermines their credibility. The 2010 update of the stability programme proposes to strengthen the framework by introducing multiannual expenditure ceilings, which would cover a large share of government finances. Escape clauses would be foreseen in case of negative economic shocks. The programme also proposes to introduce an upper limit on government debt in a constitutional law and improvements in monitoring of budget execution during the year. These efforts to strengthen the institutional set-up for public finances are welcome and should be encouraged. However, as the proposals are only at a very initial stage they should be seen as complementary efforts rather than driving forces of the fiscal consolidation strategy.

(13) There is scope to improve the composition of government spending in Slovakia. The share of government investment in total government expenditure is low compared to neighbouring countries (2 % of GDP). Spending in R&D, education and environment protection is also low by EU standards and compared to regional peers. Against this background, the projected reduction of spending on capital formation over the programme horizon is a source of concern. It may not be sustainable, and desirable, in a catching-up economy like Slovakia. The programme envisages several measures to enhance the efficiency of the government including reorganisation of the central administration through merger of ministries, centralisation of public procurements and management of state property, and better use of information technologies in public services. While still at an early stage, these measures go in the right direction.

(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, there are risks that the ambitious consolidation path described in the programme will not be achieved, and the budgetary strategy may not be fully consistent with the Council recommendations under Article 126(7).

The programme presents an ambitious plan to bring the government deficit from 6,3 % of GDP in 2009 to 3,0 % of GDP in 2012, one year before the deadline of 2013 set by the Council. Achievement of the fiscal target for 2010 would imply an improvement of the structural balance by about 1,25 percentage points of GDP. The projected average annual structural effort of around 1 % of GDP over 2010-2012 is in line with the Council recommendation under the excessive deficit procedure. However, both revenue and expenditure targets are subject to risks, especially in 2011 and 2012, when macroeconomic assumptions seem to be on the high side. In addition, further details of measures included in the programme will have to be specified to enhance the credibility of the consolidation plan.

(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 [1]. In its recommendations under Article 126(7) of 2 December 2009 with a view to bringing the excessive deficit situation to an end, the Council also invited Slovakia to report on progress made in the implementation of the Council's recommendations in a separate chapter in the updates of the stability programmes. The programme complies with this recommendation.

The overall conclusion is that the fiscal strategy presented in the programme is broadly in line with the Council recommendation under the excessive deficit procedure. It envisages a sizeable, frontloaded fiscal consolidation with a view to bringing the deficit below 3 % of GDP by 2012, one year before the deadline set by the Council, which is commendable. The budgetary projections are however subject to risks due to favourable growth assumptions for the outer years and might need more specific measures to achieve the planned savings on the expenditure side. Intentions to strengthen the fiscal framework are welcome but need to be followed by concrete actions.

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

(i) implement the deficit reducing measures in 2010 as planned in the budget, and back up the consolidation path for the following years with specific measures to secure the correction of the excessive deficit if possible by 2012, and by 2013 at the latest;

(ii) continue reforms of the pension system with a view to ensuring the sustainability of government finances;

(iii) implement the envisaged measures to further strengthen the fiscal framework, in particular the introduction of enforceable multiannual expenditure ceilings.

(1) In particular, the data on changes in inventories and net acquisition of valuables are not provided.

Comparison of key macroeconomic and budgetary projections

		2008	2009	2010	2011	2012
Real GDP (% change)	**SP Jan 2010**	**6,4**	**– 5,7**	**1,9**	**4,1**	**5,4**
	COM Nov 2009	6,4	– 5,8	1,9	2,6	n.a.
	CP Apr 2009	*6,4*	*2,4*	*3,6*	*4,5*	*n.a.*
HICP inflation (%)	**SP Jan 2010**	**3,9**	**1,2**	**2,6**	**3,7**	**4,1**
	COM Nov 2009	3,9	1,1	1,9	2,5	n.a.
	CP Apr 2009	*3,9*	*2,2*	*3,6*	*4,1*	*n.a.*
Output gap (1) (% of potential GDP)	**SP Jan 2010**	**8,9**	**– 1,1**	**– 2,9**	**– 3,0**	**– 1,0**
	COM Nov 2009 (2)	9,2	– 0,8	– 2,1	– 3,0	n.a.
	CP Apr 2009	*6,5*	*3,5*	*1,7*	*1,0*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Jan 2010**	**– 5,3**	**– 4,2**	**– 3,2**	**– 2,7**	**– 1,9**
	COM Nov 2009	– 5,6	– 4,8	– 4,3	– 4,2	n.a.
	CP Apr 2009	*– 5,8*	*– 4,2*	*– 2,9*	*– 2,6*	*n.a.*
General government revenue (% of GDP)	**SP Jan 2010**	**32,5**	**32,8**	**32,5**	**32,3**	**31,7**
	COM Nov 2009	32,5	31,3	31,4	31,4	n.a.
	CP Apr 2009	*33,4*	*32,1*	*31,6*	*31,8*	*n.a.*
General government expenditure (% of GDP)	**SP Jan 2010**	**34,8**	**39,1**	**38,0**	**36,5**	**34,7**
	COM Nov 2009	34,8	37,5	37,5	36,9	n.a.
	CP Apr 2009	*35,6*	*35,1*	*34,5*	*34,1*	*n.a.*
General government balance (% of GDP)	**SP Jan 2010**	**– 2,3**	**– 6,3**	**– 5,5**	**– 4,2**	**– 3,0**
	COM Nov 2009	– 2,3	– 6,3	– 6,0	– 5,5	n.a.
	CP Apr 2009	*– 2,2*	*– 3,0*	*– 2,9*	*– 2,2*	*n.a.*
Primary balance (% of GDP)	**SP Jan 2010**	**– 1,1**	**– 4,5**	**– 3,6**	**– 2,3**	**– 1,1**
	COM Nov 2009	– 1,1	– 5,0	– 4,7	– 4,1	n.a.
	CP Apr 2009	*– 0,9*	*– 1,7*	*– 1,7*	*– 1,0*	*n.a.*
Cyclically-adjusted balance (1) (% of GDP)	**SP Jan 2010**	**– 4,9**	**– 6,0**	**– 4,7**	**– 3,3**	**– 2,7**
	COM Nov 2009	– 5,0	– 6,0	– 5,4	– 4,6	n.a.
	CP Apr 2009	*– 4,1*	*– 4,0*	*– 3,4*	*– 2,5*	*n.a.*
Structural balance (3) (% of GDP)	**SP Jan 2010**	**– 4,2**	**– 6,0**	**– 4,7**	**– 3,3**	**– 2,7**
	COM Nov 2009	– 5,2	– 6,2	– 5,4	– 4,6	n.a.
	CP Apr 2009	*– 3,8*	*– 4,4*	*– 3,5*	*– 2,6*	*n.a.*

		2008	2009	2010	2011	2012
Government gross debt (% of GDP)	**SP Jan 2010**	**27,7**	**37,1**	**40,8**	**42,5**	**42,2**
	COM Nov 2009	27,7	34,6	39,2	42,7	n.a.
	CP Apr 2009	*27,6*	*31,4*	*32,7*	*32,7*	*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 4,7 %, 3,6 %, 3,2 % and 3,6 % respectively in the period 2008-2011.

(3) Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0,7 % of GDP in 2008, deficit-increasing, according to the most recent programme and 0,2 % of GDP in both 2008 and 2009, both deficit-reducing, in the Commission services' autumn 2009 forecast.

Source:

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

COUNCIL OPINION

on the updated stability programme of Slovenia, 2009-2013

(2010/C 144/05)

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 Slovenia, which covers the period 2009 to 2013.

(2) In the years preceding the crisis, Slovenia enjoyed solid economic growth driven by buoyant exports and investment. Rapid expansion ended in the last quarter of 2008 when the Slovenian economy was hit hard and rather abruptly by the global crisis, chiefly through the trade channel given Slovenia's high degree of openness. The economic slowdown after a phase of emerging risks of overheating and competitiveness losses is bringing about some adjustment of the economy: since the end of 2008, the inflation differential with the euro area and the external deficit have both gradually decreased, with the latter approaching balance in 2009.

As a result of the economic downturn, in conjunction with recovery measures taken in line with the European Economic Recovery Plan (EERP) and strong in-built expenditure dynamics, the Slovenian budgetary position deteriorated rapidly. The sharp increase in the general government deficit, from 1,8 % of GDP in 2008, to an estimated 5,7 % in 2009 led the Council to decide, on 2 December 2009, on the existence of an excessive deficit in Slovenia, with a deadline for the correction of this situation by 2013. Besides returning to sound public finances, including through further reforms of the pension system, key challenges for the Slovenian economy are strengthening its resilience and regaining competitiveness so as to be able to benefit fully from the global economic recovery. This requires a better alignment of wage and productivity developments and the implementation of structural reforms.

(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 Slovenia it is important to increase productivity and contain unit labour cost growth i.a. by undertaking reforms in the area of innovation and research and the labour market.

(4) The macroeconomic scenario underlying the programme envisages that real GDP will return to positive growth in 2010, at 0,9 %, from – 7,3 % in 2009 (7,8 % according to the statistical office's estimate released on 1 March 2010), and accelerate to an average rate of 3,2 % over the rest of the programme period.

Assessed against currently available information [2], this scenario appears to be based on plausible growth assumptions until 2011 and favourable growth assumptions thereafter. The projected employment decline and the corresponding increase in the unemployment rate could turn out worse than expected following (i) the phasing out of the temporary labour market support schemes, if not accompanied, where necessary, by activation and, training policies that favour job reallocation and workers' reskilling, as well as (ii) the planned gradual increase in the minimum wage between 2010 and 2012. The programme's projections for inflation appear realistic.

(5) The programme estimates the general government deficit to have increased from 1,8 % of GDP in 2008 to 5,7 % in 2009. While interest expenditure is projected to have remained broadly stable as a share of GDP, the primary balance strongly deteriorated. As mentioned above, this is due to the working of the automatic stabilisers, the strong inherent dynamics of social transfers and the public sector wage bill, as well as various discretionary measures, including measures to respond to the crisis amounting to some 1,5 % of GDP, which the government adopted in line with the EERP. According to the programme,

[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.

fiscal policy is planned to turn mildly restrictive in 2010 and more significantly so thereafter, in line with the exit strategy advocated by the Council and with a view to correcting the excessive deficit by 2013.

(6) For 2010, the programme plans the general government deficit to stabilise at 5,7 % of GDP. Given a steep rise in the interest burden, the primary deficit is targeted to narrow by 0,7 pp, to just below 4 % of GDP. Taken at face value, the budgetary strategy in 2010 is broadly consistent with the recommendation under Article 126(7) adopted by the Council on 2 December 2009 to implement the consolidation measures in 2010 as planned.

Discretionary measures on the revenue side — namely the further reduction in the corporate income tax rate and an additional tax allowance for socially vulnerable people on the one hand and the further increase in excise duty rates and revised CO_2 emission tax (which has yet to be specified and adopted) on the other — have a broadly neutral budgetary impact. Nevertheless, revenue is projected to increase by 0,8 pp of GDP compared to the estimated outcome for 2009, thanks to assumed buoyancy in indirect tax revenue [1] and a slight increase in 'other' revenue. The planned measures on the expenditure side for 2010 — including a further postponement of public sector wage increases, less generous indexation rules of social benefit rates, including pensions, and lower capital transfers — should generate savings of around 1,25 % of GDP compared to a no-policy change scenario, but, given strong inherent expenditure dynamics, the primary expenditure ratio is still planned to rise slightly in 2010. Against this background, the structural balance, i.e. the cyclically adjusted balance net of one-off and other temporary measures calculated according to the commonly agreed methodology, is set to improve only slightly, by 0,25 pp of GDP, after worsening by 0,25 pp of GDP in 2009.

(7) The main aim of the programme's medium-term budgetary strategy is to reduce the deficit below the 3 % of GDP deficit reference value by 2013, in line with the Council recommendation under Article 126(7), with deficit targets set at 4,2 %, 3,1 % and 1,6 % of GDP for 2011, 2012 and 2013 respectively. The medium-term consolidation strategy relies on a broad-based containment of primary expenditure. The programme provides indications of the broad measures that are planned to underpin this strategy, but these still have to be fully specified and adopted. They hinge upon enhanced public sector efficiency and the rationalisation of the provision of public services and of social protection. In addition, the budgetary projections in the programme incorporate the complete expiry of the temporary stimulus measures, after they start being gradually withdrawn in 2010.

Over the period 2010-2013, an average annual structural improvement of somewhat below 0,75 pp of GDP is projected, which is broadly consistent with the Council recommendation under Article 126(7). The adjustment is unevenly distributed over the period, with the restrictive fiscal stance concentrated in 2011 and 2013. The programme confirms the medium-term objective (MTO) for the Slovenia budgetary position of a structural deficit of 1 % of GDP, as originally set in 2005. Given the most recent projections and debt level, the MTO does not appear to take sufficiently into account the implicit liabilities related to ageing, despite the debt being below the 60 % of GDP reference value. The structural balances corresponding to the programme's deficit targets imply that the MTO will not be reached within the programme period.

(8) The budgetary outcomes could be worse than targeted in the programme and this possibility increases over the programme period. In 2010, the projected substantial growth in indirect taxes seems to be only partially substantiated by measures in the programme and on the high side given the subdued outlook for private consumption. Expenditure growth outcomes have exceeded plans in recent years and this situation could reoccur. From 2011 onwards, there is a greater risk of expenditure overruns, as the underlying measures have not yet been fully specified or adopted, and some of them can be expected to be subject to the outcome of negotiations with the social partners. Furthermore, the size of the envisaged retrenchment should be seen against the strong inherent expenditure dynamics in recent years, especially in the wage bill and social transfers (including pensions), both of which are planned to make a sizeable contribution to deficit reduction. The projected marked decline in capital expenditure throughout the programme period is stated to reflect an increased use of EU structural funds, which may be challenging in view of gaps in absorption capacity. Risks on the revenue side relate to the favourable macroeconomic scenario after 2011.

(9) Government gross debt is estimated in the programme to have increased markedly from 22,5 % of GDP in 2008 to 34,4 % of GDP in 2009 (in light of the lower nominal GDP figure in the statistical office's estimate released on 1 March 2010, the 2009 gross debt could be some 1 pp of GDP higher). The main contributors to this rise are the increase in the primary deficit and a significant stock-flow adjustment reflecting recapitalisations and liquidity

[1] The budget for 2010 and 2011 explains that excise duties on energy products are to benefit from a rise in the quantity of mineral oils sold and VAT revenues would rise by lower VAT refunds relative to 2009.

operations to support the financial sector. The debt ratio is projected to remain below the Treaty reference value throughout the programme period but to increase by more than 8 pps by 2012, to almost 43 % of GDP, mainly on the back of primary deficits and improving nominal GDP outlook, and to record a modest fall in 2013, driven by the return to a primary surplus position. In view of the negative risks to the budgetary targets compounded by uncertainty about the stock-flow adjustment from financial sector support, the evolution of the debt ratio might be less favourable than projected in the programme.

(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 stabilise the debt ratio for some years but would not stop it from resuming a slightly increasing trend towards 2020.

(11) The long-term budgetary impact of ageing is significantly 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 implementing structural reforms including curbing the substantial increase in age-related expenditure would contribute to reducing the risks to the sustainability of public finances, which were assessed in the Commission 2009 Sustainability Report [1] as high. The latter could usefully build on the planned two-step pension reform that is presented in the government's 'Exit Strategy 2010-2013', adopted in February 2010.

(12) The adoption of rolling two-year central government budgets and a ceiling on local government's total stock of debt are established positive features of the Slovenian fiscal framework. Still, there is room for improvement in fiscal governance. For example, a weakness of the rolling two-year budgets is that the targets set for the second year are subject to revisions in the following year's budget. Furthermore, budgetary implementation in 2006-2008 and, to some extent, 2009, show some risk of expenditure overruns. Measures to strengthen the fiscal framework in Slovenia were introduced in 2009 — i.e. performance-based budgeting and the establishment of an independent fiscal council — and others are envisaged, namely improvements in budgetary accounting and the introduction of a fiscal rule. If consistently implemented, these initiatives could help support the planned fiscal consolidation.

(13) The expenditure-based adjustment set out in the programme update hinges upon enhanced public sector efficiency and the rationalisation of the provision of public services and of social protection. Increasing spending efficiency becomes particularly important when trying to contain expenditure growth without compromising the level of services provided.

For this purpose, a number of initiatives are envisaged, such as a unified information system and a single entry point for social transfers and the redefinition of the standards for public services, taking into account quality aspects, possibly with an increase of co-financing by users. The programme expects that, together with the gradual economic recovery, these innovations will result in a decline of the social expenditure-to-GDP ratio as from 2011. On the revenue side, the 2006 tax reform, which gradually reduced the personal and corporate income tax rates, phased out the payroll tax and introduced investment tax allowances, was intended to strengthen labour supply incentives and give impetus to capital formation. An additional tax allowance for low-wage earners was introduced with the budget for 2010. These changes are being partially financed with an increase in excise duties, with further increases being announced in the programme, thus gradually moving the tax burden away from incomes, particularly of low-income earners, towards indirect taxes. Other initiatives in the taxation area concern new provisions to foster fight of tax evasion and avoidance so as to improve tax collection.

(14) Overall, in 2010 the budgetary strategy set out in the programme is broadly consistent with the Council recommendations under Article 126(7) of 2 December 2009. From 2011 on, taking into account the risks mentioned above, the budgetary strategy may not be fully consistent with these recommendations. In particular, the broad consolidation measures indicated for 2011-2013 need to be fully specified, adopted and implemented and the consolidation plans for the entire period would need to be strengthened to address the risks from less favourable GDP growth and slippages on the expenditure or revenue

[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.

side. Such a strengthening would also appear warranted in view of the above mentioned risks to long-term sustainability. Taking into account risks, the average fiscal effort over the period 2010-2013 may fall short of the 0,75 pp of GDP recommended by the Council.

(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 [1]. In its recommendations under Article 126(7) of 2 December 2009 with a view to bringing the excessive deficit situation to an end, the Council also invited Slovenia to report on progress made in the implementation of the Council's recommendations in a separate chapter in the updates of the stability programmes. Slovenia broadly complied with this recommendation.

The overall conclusion is that the programme plans the general government deficit ratio to stabilise at 5,7 % of GDP in 2010 and to gradually decline thereafter, thanks to an expenditure-based and relatively back-loaded consolidation effort, to well below 3 % of GDP in 2013, the deadline for the correction of the excessive deficit set by the Council. The gross debt ratio is planned to increase further, from 34,4 % of GDP in 2009, until 2011 to then broadly stabilise at some 42 % of GDP. The deficit and debt ratios could turn out higher than targeted throughout the programme period. This possibility increases over time and is related to: (i) optimistic revenue projections in 2010 followed by favourable growth assumptions after 2011; (ii) possible expenditure overruns in view of the scale of the envisaged retrenchment coupled with the strong observed dynamics in recent years of especially the wage bill and social transfers, including pensions; and (iii) the fact that the expenditure-containment measures have not yet been fully specified and adopted, with some of them still subject to the outcome of negotiations with the social partners. Nonetheless, to help support the planned containment of expenditure growth, the government is adopting measures to strengthen expenditure control and the fiscal framework. In addition, the planned initiatives to enhance public sector efficiency and rationalise the provision of public services and of social protection should work towards the same purpose.

Even if the full and consistent implementation of the planned fiscal consolidation implies the return to a primary surplus by 2013, there remain high risks with regard to the long-term sustainability of public finances. Setting a more ambitious medium-term objective (MTO) and adopting and implementing the announced change in indexation formula and further pension reform aimed at curbing the substantial increase in age-related expenditure would allow addressing these risks. The latter could usefully build on the planned two-step pension reform. Besides returning to sound public finances, key challenges for the Slovenian economy are strengthening its resilience and regaining competitiveness so as to be able to benefit fully from the global economic recovery. This requires a better alignment of wage and productivity developments and the implementation of structural reforms.

In view of the above assessment and also in the light of the recommendation under Article 126(7) TFEU of 2 December 2009, Slovenia is invited to:

(i) rigorously implement the foreseen consolidation measures in 2010 and bring the deficit below the 3 % of GDP reference value by 2013 as planned by fully specifying, adopting and implementing the indicated expenditure-containment measures in line with the average annual fiscal effort recommended by the Council Article 126(7), while standing ready to adopt further consolidation measures in case risks related to the fact that the macro-economic scenario of the programme is more favourable than the scenario underpinning the Article 126(7) Recommendation materialise;

(ii) pursue efforts to enhance expenditure control and the enforceable nature of the multi-annual budgetary plans and improve public spending efficiency and effectiveness;

(iii) in view of the significant projected increase in age-related expenditure, further reform the pension system and set a more ambitious 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
Real GDP (% change)	**SP Jan 2010**	**3,5**	**– 7,3**	**0,9**	**2,5**	**3,7**	**3,5**
	COM Nov 2009	3,5	– 7,4	1,3	2,0	n.a.	n.a.
	SP Apr 2009	*3,5*	*– 4,0*	*1,0*	*2,7*	*n.a.*	*n.a.*
HICP inflation (%)	**SP Jan 2010** [4]	**5,7**	**1,0**	**1,5**	**2,5**	**2,7**	**2,7**
	COM Nov 2009	5,5	0,9	1,7	2,0	n.a.	n.a.
	SP Apr 2009	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*

[1] In particular, data on net lending/borrowing vis-à-vis the rest of the world are not provided.

		2008	2009	2010	2011	2012	2013
Output gap (1) (% of potential GDP)	**SP Jan 2010**	**5,7**	**– 3,4**	**– 3,9**	**– 3,2**	**– 1,5**	**0,1**
	COM Nov 2009 (2)	5,7	– 3,3	– 3,3	– 2,8	n.a.	n.a.
	SP Apr 2009	*4,4*	*– 2,3*	*– 3,5*	*– 3,1*	*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.**
	COM Nov 2009	– 6,0	– 0,7	– 0,1	– 0,5	n.a.	n.a.
	SP Apr 2009	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
General government revenue (% of GDP)	**SP Jan 2010**	**42,4**	**42,4**	**43,2**	**42,9**	**42,7**	**42,5**
	COM Nov 2009	42,4	43,2	43,2	42,9	n.a.	n.a.
	SP Apr 2009	*42,7*	*41,9*	*42,4*	*42,4*	*n.a.*	*n.a.*
General government expenditure (% of GDP)	**SP Jan 2010**	**44,2**	**48,1**	**48,9**	**47,1**	**45,9**	**44,2**
	COM Nov 2009	44,2	49,5	50,2	49,9	n.a.	n.a.
	SP Apr 2009	*43,6*	*47,1*	*46,4*	*45,8*	*n.a.*	*n.a.*
General government balance (% of GDP)	**SP Jan 2010**	**– 1,8**	**– 5,7**	**– 5,7**	**– 4,2**	**– 3,1**	**– 1,6**
	COM Nov 2009	– 1,8	– 6,3	– 7,0	– 6,9	n.a.	n.a.
	SP Apr 2009	*– 0,9*	*– 5,1*	*– 3,9*	*– 3,4*	*n.a.*	*n.a.*
Primary balance (% of GDP)	**SP Jan 2010**	**– 0,7**	**– 4,6**	**– 3,9**	**– 2,3**	**– 1,1**	**0,4**
	COM Nov 2009	– 0,7	– 4,8	– 5,1	– 4,9	n.a.	n.a.
	SP Apr 2009	*0,2*	*– 3,6*	*– 2,2*	*– 1,6*	*n.a.*	*n.a.*
Cyclically adjusted balance (1) (% of GDP)	**SP Jan 2010**	**– 4,3**	**– 4,2**	**– 4,0**	**– 2,8**	**– 2,4**	**– 1,6**
	COM Nov 2009	– 4,5	– 4,8	– 5,4	– 5,6	n.a.	n.a.
	SP Apr 2009	*– 2,9*	*– 4,1*	*– 2,3*	*– 2,0*	*n.a.*	*n.a.*
Structural balance (3) (% of GDP)	**SP Jan 2010**	**– 4,3**	**– 4,2**	**– 4,0**	**– 2,8**	**– 2,4**	**– 1,6**
	COM Nov 2009	– 4,5	– 4,7	– 5,4	– 5,6	n.a.	n.a.
	SP Apr 2009	*– 2,9*	*– 4,1*	*– 2,3*	*– 2,0*	*n.a.*	*n.a.*
Government gross debt (% of GDP)	**SP Jan 2010**	**n.a.**	**34,4**	**39,6**	**42,0**	**42,7**	**42,1**
	COM Nov 2009	22,5	35,1	42,8	48,2	n.a.	n.a.
	SP Apr 2009	*22,8*	*30,5*	*34,1*	*36,3*	*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 3,3 %, 1,2 %, 1,2 % and 1,4 % respectively in the period 2008-2011.
(3) Cyclically adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are zero according to the most recent programme and 0,1 % of GDP in 2009, deficit-increasing, according to the Commission services autumn 2009 forecast.
(4) CPI instead of HICP inflation projections.

Source:

Stability programme (SP); Commission services' autumn 2009 forecasts (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 144/06)

Date of adoption of the decision	27.1.2010
Reference number of State aid	NN 65/09
Member State	United Kingdom
Region	Northern Ireland
Title (and/or name of the beneficiary)	City of Derry Airport — Additional costs
Legal basis	Articles 17(1) and 24(1) of the Airports (Northern Ireland) Order 1994
Type of measure	Individual aid
Objective	Sectoral development, Regional development
Form of aid	Direct grant, Soft loan
Budget	Annual budget: GBP 19,36 million
Intensity	100 %
Duration (period)	—
Economic sectors	Air transport
Name and address of the granting authority	Department of Regional Development Northern Ireland Ports and Public Transport Division Room 319 10-18 Adelaide Street Belfast BT2 8GB 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	24.3.2010
Reference number of State aid	N 37/10
Member State	Cyprus
Region	—
Title (and/or name of the beneficiary)	Θέσπιση καθεστώτος φορολόγησης χωρητικότητας για τις διεθνείς θαλάσσιες μεταφορές (Introduction of a tonnage tax scheme in favour of international maritime transport)
Legal basis	Ο περί εμπορικής ναυτιλίας (τέλη και φορολογικές διατάξεις) νομός του 2010
Type of measure	Aid scheme
Objective	Sectoral development
Form of aid	Tax rate reduction
Budget	Annual budget: EUR 1,5 million
Intensity	—
Duration (period)	1.1.2010-31.12.2019
Economic sectors	Sea and coastal water transport
Name and address of the granting authority	Department of Merchant Shipping, Kyllinis Str. Mesa Geitonia 4007 Limassol CYPRUS
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	N 65/10
Member State	United Kingdom
Region	—
Title (and/or name of the beneficiary)	Amendments to the Renewables Obligation Certificates (ROCs) scheme
Legal basis	s 32 of the Electricity Act 1989 (1989 Chapter 29), as amended by ss 37-40 of the Energy Act 2008 (2008 Chapter 32). Implemented by the Renewables Obligation Order 2009 (No 785) to be amended by Renewables Obligation Order 2010
Type of measure	Aid scheme
Objective	Environmental protection
Form of aid	Transactions not on market terms
Budget	Overall budget: GBP 2,298 million

Intensity	100 %
Duration (period)	1.4.2010-31.3.2020
Economic sectors	Energy
Name and address of the granting authority	UK Department for Energy and Climate Change (DECC) Renewables Obligation, Area A 3 Whitehall Place London SW1A 2AW 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	19.4.2010
Reference number of State aid	N 81/10
Member State	Germany
Region	—
Title (and/or name of the beneficiary)	Bund: Änderung der Steuerermäßigung für Biokraftstoffe 421-40304/0025
Legal basis	§ 50 Energiesteuergesetz vom 15. Juli 2006 (BGBl. I S. 1534; 2008, 660; 2008, 1007), zuletzt geändert durch Gesetz vom 17. Juli 2009 (BGBl. I S. 2444)
Type of measure	Aid scheme
Objective	Environmental protection
Form of aid	Tax rate reduction
Budget	Annual budget: EUR 52 million Overall budget: EUR 281 million
Intensity	—
Duration (period)	1.1.2009-31.12.2012
Economic sectors	Manufacturing industry
Name and address of the granting authority	Bundesministerium der Finanzen Dienstsitz Berlin Wilhelmstraße 97 10117 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

IV

(Notices)

NOTICES FROM EUROPEAN UNION INSTITUTIONS, BODIES, OFFICES AND AGENCIES

EUROPEAN COMMISSION

Euro exchange rates [1]

2 June 2010

(2010/C 144/07)

1 euro =

	Currency	Exchange rate		Currency	Exchange rate
USD	US dollar	1,2218	AUD	Australian dollar	1,4641
JPY	Japanese yen	112,36	CAD	Canadian dollar	1,2848
DKK	Danish krone	7,4403	HKD	Hong Kong dollar	9,5217
GBP	Pound sterling	0,83345	NZD	New Zealand dollar	1,8058
SEK	Swedish krona	9,5668	SGD	Singapore dollar	1,7230
CHF	Swiss franc	1,4148	KRW	South Korean won	1 497,50
ISK	Iceland króna		ZAR	South African rand	9,3686
NOK	Norwegian krone	7,9220	CNY	Chinese yuan renminbi	8,3448
BGN	Bulgarian lev	1,9558	HRK	Croatian kuna	7,2620
CZK	Czech koruna	25,779	IDR	Indonesian rupiah	11 314,93
EEK	Estonian kroon	15,6466	MYR	Malaysian ringgit	4,0234
HUF	Hungarian forint	275,88	PHP	Philippine peso	57,089
LTL	Lithuanian litas	3,4528	RUB	Russian rouble	38,0630
LVL	Latvian lats	0,7090	THB	Thai baht	39,818
PLN	Polish zloty	4,1008	BRL	Brazilian real	2,2491
RON	Romanian leu	4,1873	MXN	Mexican peso	15,7618
TRY	Turkish lira	1,9317	INR	Indian rupee	57,4060

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

Commission communication in the framework of the implementation of the Commission Directive 2002/40/EC

(Text with EEA relevance)

(Publication of titles and references of harmonised standards under the Directive)

(2010/C 144/08)

ESO [1]	Reference and title of the standard (and reference document)	Reference of the superseded standard	Date of cessation of use of the superseded standard Note 1
CENELEC	EN 50304:2009 Electric cooking ranges, hobs, ovens and grills for household use — Methods for measuring performance (IEC 60350:1999 (Modified) + A1:2005 (Modified) + A2:2008 (Modified))	EN 50304:2001 Note 2.1	Date expired (1.12.2009)

[1] ESO: European Standards Organisation:
— CEN: Avenue Marnix 17, 1000 Bruxelles/Brussel, BELGIQUE/BELGIË, Tel. +32 25500811; Fax +32 25500819 (http://www.cen.eu),
— CENELEC: Avenue Marnix 17, 1000 Bruxelles/Brussel, BELGIQUE/BELGIË, Tel. +32 25196871; Fax +32 25196919 (http://www.cenelec.eu),
— ETSI: 650 route des Lucioles, 06921 Sophia Antipolis, FRANCE, Tel. +33 492944200; Fax +33 493654716 (http://www.etsi.eu).

Note 1: Generally the date of cessation of use will be the date of withdrawal (dow), set by the European Standardisation Organisation, but attention of users of these standards is drawn to the fact that in certain exceptional cases this can be otherwise.

Note 2.1: The new (or amended) standard has the same scope as the superseded standard. On the date stated, the superseded standard cannot be used any longer in the context of the directive.

Note 3: In case of amendments, the referenced standard is EN CCCCC:YYYY, its previous amendments, if any, and the new, quoted amendment. The superseded standard (column 3) therefore consists of EN CCCCC:YYYY and its previous amendments, if any, but without the new quoted amendment. On the date stated, the superseded standard cannot be used any longer in the context of the directive.

NOTE:

— Harmonised standards are adopted by the European Standardisation Organisations in English (CEN and CENELEC also publish in French and German). Subsequently, the titles of the harmonised standards are translated into all other required official languages of the European Union by the National Standards Bodies. The European Commission is not responsible for the correctness of the titles which have been presented for publication in the Official Journal.

NOTICES FROM MEMBER STATES

Commission communication pursuant to Article 16(4) of Regulation (EC) No 1008/2008 of the European Parliament and of the Council on common rules for the operation of air services in the Community

Public service obligations in respect of scheduled air services

(Text with EEA relevance)

(2010/C 144/09)

Member State	Finland
Concerned route	Helsinki–Savonlinna–Helsinki
Date of entry into force of the public service obligations	1 October 2010
Address where the text and any relevant information and/or documentation related to the public service obligation can be obtained free of charge	Ministry of transport and communications Kirjaamo PB 31 FI-00023 Valtioneuvosto Helsinki SUOMI/FINLAND E-mail: kirjaamo@lvm.fi Fax +358 916028596 Internet: http://www.lvm.fi

Commission communication pursuant to Article 16(4) of Regulation (EC) No 1008/2008 of the European Parliament and of the Council on common rules for the operation of air services in the Community

Public service obligations in respect of scheduled air services

(Text with EEA relevance)

(2010/C 144/10)

Member State	Finland
Concerned route	Helsinki–Varkaus–Helsinki
Date of entry into force of the public service obligations	1 October 2010
Address where the text and any relevant information and/or documentation related to the public service obligation can be obtained free of charge	Ministry of transport and communications Kirjaamo PB 31 FI-00023 Valtioneuvosto Helsinki SUOMI/FINLAND E-mail: kirjaamo@lvm.fi Fax +358 916028596 Internet: http://www.lvm.fi

Commission communication pursuant to Article 17(5) of Regulation (EC) No 1008/2008 of the European Parliament and of the Council on common rules for the operation of air services in the Community

Invitation to tender in respect of the operation of scheduled air services in accordance with public service obligations

(Text with EEA relevance)

(2010/C 144/11)

Member State	Finland
Concerned route	Helsinki–Savonlinna and/or Helsinki–Varkaus routes
Period of validity of the contract	1 October 2010-31 December 2013
Deadline for submission of tenders	61 days after the day of publication of the notice of PSOs
Address where the text of the invitation to tender and any relevant information and/or documentation related to the public tender and the public service obligation can be obtained free of charge	Ministry of transport and communications Kirjaamo PB 31 FI-00023 Valtioneuvosto Helsinki SUOMI/FINLAND E-mail: kirjaamo@lvm.fi Fax +358 916028596 Internet: http://www.lvm.fi

V

(Announcements)

ADMINISTRATIVE PROCEDURES

EUROPEAN COMMISSION

CALL FOR PROPOSALS — EACEA/12/10

'Youth in action' programme

Action 4.5 — Support to information activities for young people and those active in youth work and youth organisations

(2010/C 144/12)

1. **Objectives and description**

The purpose of this call for proposals is to support projects, which promote information and communication actions with a European dimension that are aimed at young people and youth leaders. The projects proposed must enhance the dissemination of quality information and increase young people's access to information and to various channels of communication at both national and European levels. The projects will aim in the long term to encourage the participation of young people in public life and to facilitate the achievement of their potential as active, responsible European citizens.

This call provides grants to projects.

Preference will be given to those projects which best reflect the permanent priorities of the 'Youth in action' programme:

— participation of young people,

— cultural diversity,

— European citizenship,

— inclusion of young people with fewer opportunities.

Preference will also be given to projects reflecting the following annual priorities of the call:

— media literacy,

— global issues affecting young people, such as climate change, sustainable development, migrations, and the Millennium Development Goals [1].

The final beneficiaries of these projects are young people and people working in the youth sector, either in youth organisations and structures or in regional and local authorities.

2. **Eligible applicants**

Proposals must be submitted by non-profit organisations. These organisations can be:

— non-governmental organisations (NGOs),

— public bodies at regional or local level, or

— national Youth Councils.

[1] More information is available at: http://www.undp.org/mdg/basics.shtml

Applicants must — at the specified deadline for submitting their proposals — have been legally registered for at least two (2) years in one of the programme countries. The programme countries are as follows:

— the Member States of the European Union [1]: Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Sweden, Finland, Sweden, the United Kingdom;

— those countries of the European Free Trade Association (EFTA) which are parties to the agreement on the European Economic Area (EEA): Iceland, Liechtenstein and Norway;

— candidate countries for which a pre-accession strategy has been established, in accordance with the general principles and general terms and conditions laid down in the framework agreements concluded with these countries with a view to their participation in EU programmes: Turkey.

Projects must involve partners from at least two (2) different programme countries (including the applicant organisation), among which at least one (1) EU Member State.

This call for proposals is open to private organisations operating in the domain of information and communication provided that such organisations take part in the project on a non-profit making basis. It is understood that these private entities can take part only as co-beneficiaries (partners) in this call for proposals and cannot submit applications as coordinator (applicant).

3. **Eligible actions and proposals**

The project must include activities of a non-profit-making nature that are related to the field of youth and non-formal education.

Projects must start between 1 January 2011 and 31 March 2011. They will have a minimum duration of 12 months and a maximum duration of 18 months.

Only typed proposals submitted in one of the official EU languages, using the official application form, completed in full, and sent by the specified deadline (10 September 2010) will be considered. The application has to be sent in one unique package and as a single copy (the original document). It must be dated and signed (original signatures required) by the person authorised to enter into legally binding commitments on behalf of the applicant organisation.

The application form must be accompanied by an official letter from the applicant organisation, documents attesting its financial and operational capacity, and all the other documents referred to in the application form.

Applicants must submit a budget that is balanced in terms of expenditure and revenue and must comply with the ceiling for EU co-financing, which is set at 80 % of the total eligible expenses of the project, and with the maximum grant amount set at EUR 100 000.

4. **Award criteria**

Eligible applications will be assessed on the basis of the following criteria:

Qualitative criteria

The qualitative criteria will represent 80 % of the points available within the evaluation procedure (coefficient 4).

— Relevance of the project in relation to the objectives and priorities of the call (30 %)

In this respect the following aspects will be assessed:

(a) the project meets the general objectives of the 'Youth in action' programme;

(b) the project meets the objectives and priorities of this call for proposals.

(1) Persons from overseas countries and territories and, if applicable, public or private institutions based there, are eligible under the 'Youth in action' programme, depending upon the rules of the programme and those which apply in the Member State with which they are connected. A list of these overseas countries and territories is given in Annex 1A of Council Decision 2001/822/EC of 27 November 2001 on the association of the overseas countries and territories with the European Community 'Overseas Association Decision' OJ L 314, 30.11.2001: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2001D0822:20011202:EN:PDF

— Quality of the project and of the working methods that it comprises (50 %)

In this respect the following aspects will be assessed:

(a) the scope of the project; in other words, its multiplier effect and in particular its sustainable impact, as well as its long-term viability;

(b) the high quality of the work programme in terms of content and methodology, its clearness and consistency;

(c) the transnational and multilingual character of activities and products developed;

(d) the active involvement of young people in the project;

(e) the visibility of the project and the quality of measures aimed at disseminating and exploiting project's results;

(f) the quality of the partnership, and in particular the clarity of the tasks, description of the partners' actual role in the cooperation, as well as the experience and motivation of the partners to set up the project;

(g) the consistency of the budget with the activities planned for in the work programme.

Quantitative criteria

The quantitative criteria will represent 20 % of the points available within the evaluation procedure (coefficient 1).

— Profile and number of participants and of promoters involved in the project (20 %)

(a) the number of partners involved in the project and the number of countries covered by the partnership;

(b) the number of young people and youth workers directly involved in the project.

5. **Budget**

The total budget allocated to the co financing of projects under this call for proposals is estimated at EUR 1 000 000.

Financial assistance from the Agency shall not be granted for more than 80 % of a project's total eligible expenses. The maximum grant shall not exceed EUR 100 000.

The Agency reserves the right not to distribute all the funds available.

6. **Deadline for submission of applications**

Applications must be sent **no later than 10 September 2010** to the following address:

Education, Audiovisual and Culture Executive Agency
'Youth in action' programme — EACEA/12/10
BOUR 4/029
Avenue du Bourget/Bourgetlaan 1
1140 Bruxelles/Brussel
BELGIQUE/BELGIË

— by post, date as per postmark,

— by an express courier company, the date of receipt by the courier company being taken as proof of posting (a copy of the original deposit date receipt must be included in the application form).

Applications sent by fax or e-mail will not be accepted.

7. **Additional information**

Detailed Applicants' Guidelines and application forms can be found on the Internet at the following address: http://eacea.ec.europa.eu/youth/funding/2010/call_action_4_5_en.php

Grant applications must use the application form specifically designed for this purpose and contain all the annexes and information required.

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[1] Text with EEA relevance

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