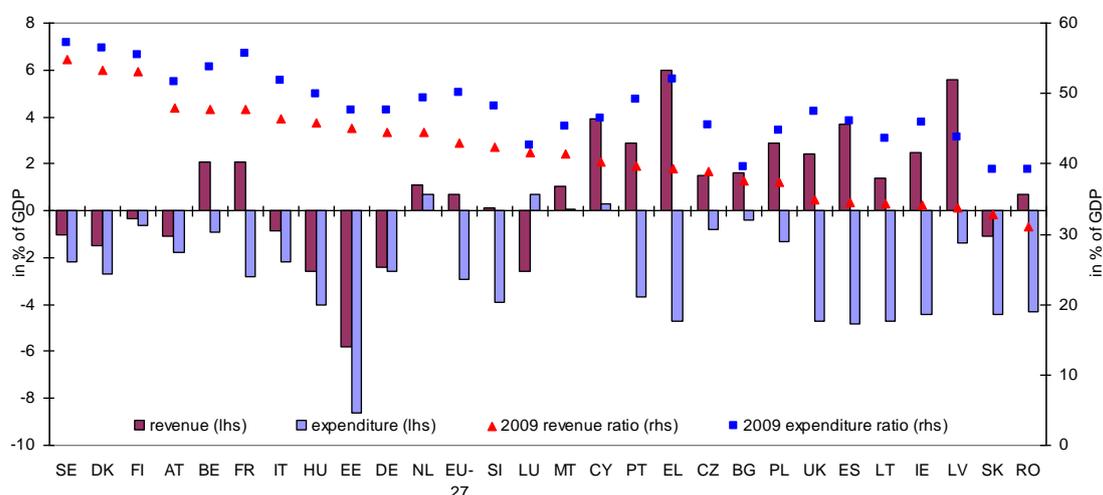


### 3. STABILITY AND CONVERGENCE PROGRAMMES SET OUT THE CONSOLIDATION PLANS OVER THE MEDIUM TERM

Graph I.3.10: Planned changes in revenue and expenditure over 2010-2012/13 in the SCPs (% of GDP)



Source: Commission services.

(larger squares) tend to have relatively low revenue and expenditure ratios. There are several explanations for this link between revenue ratios and the size of deficits. The size of government tends to increase with GDP/capita. Most of the Member States with low revenue ratios are catching up economies that had the strongest credit- and housing-driven booms. As a result, they suffered most from (i) a large reduction in output and domestic demand (ii) a reversal of revenue windfalls related to housing and credit. As a result of the reduction in GDP, the expenditure ratio strongly increased as expenditure levels need to adjust to lower levels of potential output than previously estimated.

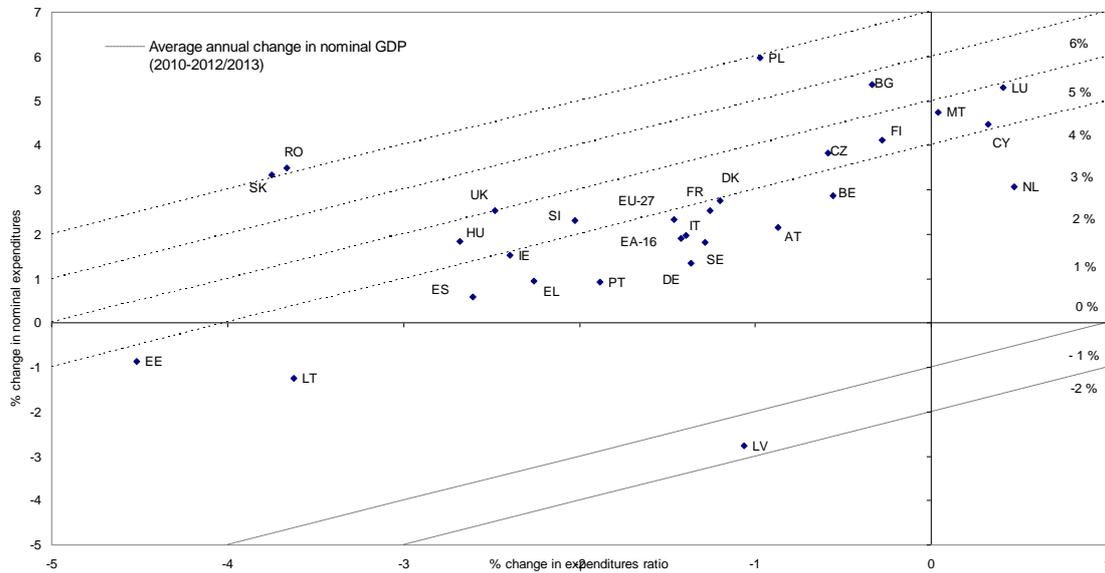
A planned change in the expenditure ratio can be consistent with different rates of growth of nominal expenditure, depending on the assumption on nominal GDP growth. Graph I.3.11 shows the average change in the nominal expenditure growth planned by governments over 2010-2012 (2013 for programmes with a horizon going beyond 2012) and the nominal GDP growth rates that make these changes consistent with the percentage change in the expenditure ratios presented in the programmes. All Member States except Luxembourg, Malta, and the Netherlands project a reduction in the expenditure-to-GDP ratio over the period considered. However, only Lithuania, Estonia and Latvia plan to cut expenditure in nominal terms. In particular, with a nominal GDP

in 2012 expected to remain below the 2009 level, in the case of Latvia a contraction in expenditure in nominal terms is necessary to reduce the expenditure ratio. By contrast, a number of countries plans to achieve a reduction in expenditure consistent with positive changes in nominal expenditure, which in some cases are significant.

#### 3.4. MEDIUM TERM OBJECTIVES IN THE 2008-09 AND 2009-10 ROUNDS OF SCPS

In the 2009-10 stability and convergence programmes, MTOs were presented for the first time according to the new agreement including implicit liabilities, according to the revised criteria as set out in the Code of Conduct. Section II.4 discusses the background to the new MTOs in detail.

Graph I.3.11: Average annual planned change in nominal expenditure over the 2010-2012/2013 period versus average annual planned change in the expenditure ratios over the same period

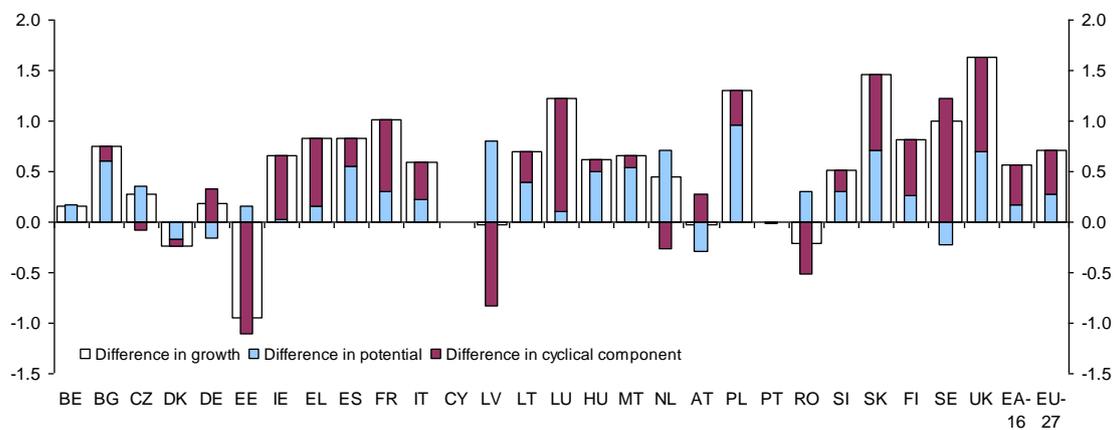


Source: Commission services.

Table I.3.1 shows the MTOs presented in the 2009-10 SCPs and Table I.3.2 presents the assessment of compliance in the respective Council opinion.

Table I.3.1: MTOs 2009-10 and 2008-09 round of SCPs

Graph I.3.3: Difference in growth assumptions (SCP-COM) in 2011 and its breakdown



Source: Commission services.

	MTO 2009-10 round of SCPs	MTO 2008-09 round of SCPs
BE	0.5	0.5
BG	0.5	1.5
CZ	-1.0	-1.0
DK	0.0	0.75 to 1.75
DE	-0.5	-0.5 to 0.0
EE	0.0	0.0
IE	-0.5	BP*
EL	0.0	0.0
ES	0.0	0.0
FR	0.0	0.0
IT	0.0	0.0
CY	0.0	0.0
LV	-1.0	-1.0
LT	0.5	-1.0
LU	0.5	-0.8
HU	-1.5	-0.5
MT	0.0	0.0
NL	-0.5	-1.0 to -0.5
AT	0.0	0.0
PL	-1.0	-1.0
PT	-0.5	-0.5
RO	-0.7	-0.9
SI	-1.0	-1.0
SK	0.0	-0.8
FI	0.5	2.0
SE	1.0	1.0
UK	:	:

Source: Commission services

Table I.3.2: Assessment of the MTOs in the 2009-2010 updates of the stability and convergence programmes

Country	MTO	Assessment
BE	0.5	Reflects the objectives of the Pact
BG	0.5	More than adequately reflects the objectives of the Pact
CZ	-1.0	Reflects the objectives of the Pact
DK	0.0	More than adequately reflects the objectives of the Pact
DE	-1/2	Reflects the objectives of the Pact
EE	0.0	More than adequately reflects the objectives of the Pact
IE	-0.5	Reflects the objectives of the Pact
EL	0.0	Is not projected to be attained within the programme horizon
ES	0.0	More than adequately reflects the objectives of the Pact
FR	0.0	More than adequately reflects the objectives of the Pact
IT	0.0	Reflects the objectives of the Pact
CY	0.0	Reflects the objectives of the Pact
LV	-1.0	Reflects the objectives of the Pact
LT	0.5	More than adequately reflects the objectives of the Pact
LU	0.5	Does not appear to take sufficiently into account implicit liabilities
HU	-1.5	Reflects the objectives of the Pact
MT	0.0	Reflects the objectives of the Pact
NL	-0.5	Adequately reflects the objectives of the Pact
AT	0.0	More than adequately reflects the objectives of the Pact
PL	-1.0	More than adequately reflects the objectives of the Pact
PT	-0.5	More than adequately reflects the objectives of the Pact
RO	-0.7	Reflects the objectives of the Pact
SI	-1.0	Does not appear to take sufficiently into account implicit liabilities
SK	0.0	More than adequately reflects the objectives of the Pact
FI	0.5	Appears to reflect the objectives of the Pact
SE	1.0	More than adequately reflects the objectives of the Pact
UK	no MTO	n.a.

Source: Commission services

Table I.3.3: Budgetary developments according to the 2009-2010 Stability and Convergence Programme updates

	Real GDP growth				Government balance				Structural balance				Government gross debt			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
BE	-3.1	1.1	1.7	2.2	-5.9	-4.8	-4.1	-3.0	-3.8	-3.4	-2.9	-2.2	98	101	101	101
DE	-5.0	1.4	2	2	-3.2	-5%	-4%	-3%	-1.8	-4.4	-3.9	-3.0	72½	76½	79½	81
IE	-7.5	-1.3	3.3	4.5	-11.7	-11.6	-10	-7.2	-9.3	-9.2	-8.2	-6.3	65	78	83	84
EL	-1.2	-0.3	1.5	1.9	-12.7	-8.7	-5.6	-2.8	-11.4	-7.7	-4.4	-1.9	113	120	121	118
ES	-3.6	-0.3	1.8	2.9	-11.4	-9.8	-7.5	-5.3	-9.9	-7.9	-6.1	-4.6	55	66	72	74
FR	-2.25	1.4	2.5	2.5	-7.9	-8.2	-6	-4.6	-6.5	-6.8	-4.9	-4.0	77	83	86	87
IT	-4.8	1.1	2.0	2.0	-5.3	-5.0	-3.9	-2.7	-3.8	-3.3	-2.7	-1.9	115	117	117	115
CY	-1.7	0.5	1.5	3	-6.1	-6.0	-4.5	-3.4	-5.6	-5.2	-3.6	-2.9	56	61	63	63
LU	-3.9	2.5	3	2.7	-1.1	-3.9	-5	-4.6	0.9	-2.2	-3.6	-3.4	15	18	24	29
MT	-2	1.1	2.3	2.9	-3.8	-3.9	-2.9	-2.8	-3.2	-3.5	-2.8	-3.3	67	69	68	67
NL	-4	1.5	2	2	-4.9	-6.1	-5	-4.5	-3.8	-4.8	-3.9	-3.5	62	67	70	73
AT	-3.4	1.5	1.5	1.9	-3.5	-4.7	-4.0	-3.3	-2.7	-3.9	-3.3	-2.7	67	70	73	74
PT	-2.7	0.7	0.9	1.3	-9.3	-8.3	-6.6	-4.7	-8.3	-7.5	-5.9	-4.1	77	86	89	91
SI	-7.3	0.9	2.5	3.7	-5.7	-5.7	-4.2	-3.1	-4.2	-4.0	-2.8	-2.4	34	40	42	43
SK	-5.7	1.9	4.1	5.4	-6.3	-5.5	-4.2	-3	-6.0	-4.7	-3.3	-2.7	37	41	43	42
FI	-7.6	0.7	2.4	3.5	-2.2	-3.6	-3.0	-2.3	0.3	-0.9	-1.0	-1.2	42	48	52	54
EA-16 (2)	-4.0	1.0	2.0	2.3	-6.3	-6.7	-5.3	-3.9	-4.8	-5.3	-4.2	-3.2	79	84	87	87
BG	-4.9	0.3	3.8	4.8	-1.9	0.0	0.1	0.1	-0.7	1.9	1.7	1.0	15	15	15	14

Table I.3.4: Overview of the Council opinions on the SCPs – summary assessments and policy invitations

<b>BE</b>	<p><b>Summary Assessment:</b></p> <p>The overall conclusion is that, following the expansion in 2009 in line with the EERP, the budgetary stance turns restrictive in 2010 and 2011 and more significantly so in 2012. At face value, this should lead to a correction of the excessive deficit by 2012, in line with the recommendation of 2 December 2009 under Article 126(7) of the TFEU. The government gross debt-to-GDP ratio, which rose in 2008 as a result of the measures to stabilise the financial system, will continue its upward movement up to 2011 and start declining again in 2012. This would bring the debt back on a downward path. However, the budgetary path is subject to some downside risks.</p> <p>In 2010, potentially optimistic tax estimates may lead to a somewhat higher deficit and may call for additional measures to be taken in the context of the foreseen budget control exercises. As from 2011, the main risk relates to the fact that the measures underpinning the target for 2011 are only partly specified and there are no measures specified for 2012. In addition, the slightly favourable macroeconomic assumptions combined with an average annual fiscal effort that is somewhat below the ¾ of GDP recommended by the Council, pose further downward risks to the targets.</p> <p>The Belgian government however committed in the programme to take the necessary exceptional measures if economic growth is insufficient to achieve the 3% of GDP deficit target in 2012, which may indeed be needed. The adjustment could also benefit from a stronger focus on expenditure restraint. Finally, while the programme announces a number of improvements to the fiscal framework, more needs to be done to support the consolidation effort, in particular as regards the introduction of enforceable, multi-annual expenditure ceilings.</p> <p><b>Policy Invitations:</b></p> <p>Ensure that the 2010 deficit target of the programme is met; specify the measures underlying the budgetary targets from 2011 onwards in order to achieve the recommended average annual fiscal effort of ¾ of GDP in line with the Article 126(7) Recommendation; and stand ready to strengthen the fiscal effort in case risks related to the fact that the programme scenario is more favourable than the scenario underpinning the Article 126(7) Recommendation materialise; Seize, as prescribed in the EDP recommendation any opportunity beyond the fiscal efforts, including from better economic conditions, to accelerate the reduction of the gross debt ratio towards the 60% of GDP reference value.</p> <p>Ensure high primary surpluses over the medium term and undertake structural reforms in order to improve the long-term sustainability of public finances.</p> <p>Improve the quality of public finances by adopting a more stringent budgetary framework, encompassing the creation of enforceable, multi-annual expenditure ceilings.</p>
<b>BG</b>	<p><b>Summary Assessment:</b></p> <p>The overall conclusion is that the programme's aim to maintain a sound budgetary position, reflected in planned general government balanced budgets, is considered adequate at the current economic juncture and in view of the need to contain the economy's external imbalances. The undertaken consolidation measures and the strong political commitment to fiscal discipline are expected to partially compensate the risks stemming from the slightly favourable assumptions on growth and revenue collection. In the short- to medium-term the programme foresees ambitious structural reforms that aim to strengthen the sustainability of public finances and at the same time to underpin the economic recovery. Subject to the downside risks from the still high uncertainty in the external environment, the budgetary stance would imply that the medium term objective of ½% of GDP, although more than adequately reflecting the objectives of the Pact, would be</p> <p>At the same time keeping tight fiscal policy and restricting wage development in line with productivity growth is warranted from the need to enhance competitiveness and correct the external imbalances. In the long-run, improving the quality and sustainability of public finances requires vigorous implementation of the planned and long-delayed structural reforms and strengthening the administrative capacity.</p> <p><b>Policy Invitations:</b></p> <p>Strengthen the efficiency of public spending by vigorously implementing the planned structural reforms in the area of public administration, healthcare, education, and pensions in order to boost productivity and ensure sustainable convergence within the European Union</p>
<b>CZ</b>	<p><b>Summary Assessment:</b></p> <p>The overall conclusion is that the budgetary strategy of the Czech Republic for 2010 is appropriate and in line with the Council Recommendation under Article 126(7) TFEU. The fiscal strategy for the following years lacks ambition and fiscal targets are subject to risks both on the revenue and expenditure side. In particular, the expenditure targets are not backed up by specific measures from 2011 on and the favourable macro-economic assumptions put some doubt on the revenue projections for 2012. Moreover, while the target date for bringing the government deficit below 3% of GDP (2013) is in line with the Council Recommendation it is not possible to fully assess the budgetary strategy as the</p> <p>Therefore, more information on the broad strategy underpinning the correction of the excessive deficit, including in particular 2013, would be welcome. With respect to the fiscal framework, there are noticeable weaknesses in several areas, in particular in budgetary procedures, enforcement of the medium-term budgetary framework. Furthermore, the long-term budgetary impact of ageing is clearly above the EU average which remains a concern for long-term sustainability of public finances and points to the need for reforms in the areas of pensions and healthcare.</p>

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	<p>(i) the fact that the consolidation efforts planned after 2010 are not underpinned by broad measures and are stated to be subject to review in the context of future budgets;</p> <p>(ii) the programme's favourable macroeconomic outlook after 2010; and</p> <p>(iii) the risk of expenditure overruns in 2010 and also beyond, to the extent that the still to be spelled out strategy should rely on expenditure restraint. This, together with the likely need for further support measures for the financial sector, implies that also the debt ratio could turn out higher than planned in the programme. While the significant size of the savings package for 2010 is broadly in line with the Council recommendation issued on 2 December 2009, it will be important to address the above-mentioned risks, by spelling out the measures underlying the consolidation strategy and adopting additional consolidation measures if growth turns out weaker than projected in the programme or if the risk of expenditure slippages materialises.</p> <p>Building on the significant efforts already made, implementing a credible fiscal consolidation strategy, which should be facilitated by a stronger budgetary framework, should foster a return to sustainable economic growth. To help achieve this, there is also a need to regain competitiveness through measures enhancing productivity growth and adequate wage policies, and to support the re- and up-skilling of the newly-unemployed to prevent them from turning into long-term unemployed. With a view to improving the long-term sustainability of public finances, further reforms to the pension system will be important in addition to the fiscal consolidation efforts. These reforms could usefully build on the March 2010 National Pensions Framework.</p> <p><b>Policy Invitations:</b></p> <p>Rigorously implement the budget for 2010 and back up the envisaged consolidation packages for the following years with concrete measures within a broad-based consolidation strategy in order to achieve the recommended average fiscal effort of 2% of GDP in line with the Article 126(7) Recommendation, 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;</p> <p>Seize, as prescribed in the EDP recommendation, any opportunities 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;</p> <p>In view of the significant projected increase in age-related expenditure, and also of the further increase in debt expected over the programme period, improve the long-term sustainability of public finances by implementing further pension reform measures;</p> <p>To limit risks to the adjustment, strengthen the enforceable nature of its medium-term budgetary framework, as well as closely monitor adherence to the budgetary targets throughout the year;</p>
EL	<p><b>Summary Assessment:</b></p> <p>The overall conclusion is that the programme displays an appropriate degree of ambition given the sheer size of the consolidation need and is frontloaded. The fiscal consolidation in 2010 focuses more on public revenue enhancement and to a lesser extent, on public spending retrenchment, while the composition of the fiscal adjustment is planned to be more balanced between revenues and expenditures in the outer years. The programme presents a package of concrete fiscal consolidation measures for 2010, providing also the estimated quantification of each one of the measures included, as well as the timeframe of their adoption and implementation. Some of these measures have already been submitted to Parliament and are to be implemented shortly. However, the plans for 2011, 2012 and 2013 are much less detailed. The programme provides a wide range of budgetary measures and structural reforms in order to address the structural imbalances of the Greek economy and to reverse the upward trend of public debt. Potential delays in rigorously implementing these measures remain a source of risk.</p> <p>Moreover, the budgetary strategy is also subject to significant downside risks, with the growth assumptions underlying the central macroeconomic scenario of the programme being favourable.</p> <p>In particular, general government expenditure by function and information on debt developments and the components of stock-flow adjustment (differences between cash and accruals, net accumulation of financial assets, valuation effects and other), liquid financial assets and net financial debts are not provided.</p> <p>Consolidation relies also, on the results from the improvement of the tax collection mechanism, widening of the tax base and increase of tax compliance. The proceeds from the fight against tax evasion constitute a large component of the overall consolidation effort in 2010 and are subject to large risks. Given the several risks bearing on budgetary implementation, ensuring the fiscal consolidation path by implementing promptly and rigorously the measures presented in the stability programme and standing ready to adopt sufficient additional measures, appears necessary. In addition, the structural nature of the factors underlying competitiveness losses and the widening external imbalances urgently requires the prompt implementation of bold structural reforms, including the ones presented in the programme. In the long term, the level of debt which remains among the highest in the EU, coupled with the projected increase in age-related spending, affects negatively the long-term sustainability of public finances.</p> <p><b>Policy Invitations:</b></p> <p>The Council is also addressing to the Hellenic Republic a recommendation under Article 121(4) and a notice to take action under Article 126(9) on 16 February 2010.</p>

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ES	<p><b>Summary Assessment:</b></p> <p>The overall conclusion is that the current crisis is severely impacting on the Spanish public finances, with a very high deficit estimated for 2009 and a rapidly rising government debt ratio. The stability programme update aims at sizeable continued fiscal consolidation from 2010 on with a view to reducing the government deficit to 3% of GDP by 2013. Article 126(7) target, in the context of the 2011 and 2012 budgets, a larger budgetary adjustment than the one planned in the programme and specify in more detail the measures that are necessary to correct the excessive deficit by 2013 at the medium term. In addition, improving long-term fiscal sustainability should be a priority also in the light of the projected high rise in age-related public expenditure.</p> <p>The Council is also addressing to the Hellenic Republic a recommendation under Article 121(4) and a notice to take action under Article 126(9) on 16 February 2010.</p>
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Table (continued)

<p><b>NL</b></p>	<p><b>Summary Assessment:</b></p> <p>The overall conclusion is that the Netherlands is hit hard by the crisis, resulting in a sharp deterioration of the budget balance in 2009, which turned from a surplus of 0.7% of GDP in 2008 to a deficit of 4.9% of GDP, triggering the excessive deficit procedure. For 2010, a further deterioration is expected, most importantly due to various lagged effects, like increasing unemployment. The subsequent withdrawal of the fiscal stimulus and a consolidation package should improve the budget balance in 2011. For 2012, the improvement in the budget comes from cyclical conditions following the no-policy change scenario. The debt ratio, which breached the 60% Treaty reference value in 2009, is expected to increase substantially over the programme horizon. The adjustment path presented in the programme is subject to downside risks and would benefit from a strengthened consolidation beyond 2011. The main risks are related to the favourable macroeconomic assumptions combined with an annual fiscal effort that is a narrow ¾% of GDP, which was recommended by the Council.</p> <p>The programme includes a commitment to take additional policy measures in order to meet the 2013 deadline. However, as 2013 is not covered by the programme, it is not possible to fully assess the budgetary strategy. Therefore, more information on the broad strategy underpinning the correction of the excessive deficit, including in particular 2013, would be welcome. Ensuring higher primary surpluses over the medium term and implementing reform measures that curb the projected increase in age-related expenditure would contribute to reducing high risks to the sustainability of public finances. The recently proposed pension reform would be considered as an important first step, if adopted.</p> <p><b>Policy Invitations:</b></p> <p>In the context of the fundamental budget review, specify the measures supporting the consolidation from 2011 and especially in the following years, further strengthen the consolidation effort to secure the required average annual fiscal effort to bring the deficit below 3% of GDP by 2013, and throughout the programme period use windfalls related to an improvement of the macro-economic and fiscal outlook to accelerate the deficit reduction and the decline of the gross</p> <p>Further improve the long-term sustainability of public finances by implementing structural reforms that curb the projected increase in age-related expenditure;</p>
<p><b>AT</b></p>	<p><b>Summary Assessment:</b></p> <p>The overall conclusion is that in the wake of the financial and economic crisis the situation of Austria's public finances deteriorated significantly as a result of the operation of automatic stabilisers and a sizeable stimulus package adopted by the government. As the bulk of the measures aimed at combating the downturn are of permanent nature, there is a need to introduce consolidation measures as from 2011. The budgetary strategy set out in the programme for 2010 is consistent with the Council recommendation of 2 December 2009. However, the budgetary strategy for the years 2011-2013 may not be consistent with the recommendation.</p> <p>The programme does outline a consolidation path on the expenditure side starting in 2011, but it still needs to be underpinned by concrete measures. Many significant reforms to public expenditure have been undertaken in Austria in the recent past. However, there is still room for improvement in areas such as health care and education. Substantial efficiency gains in these areas could be obtained by reforming the fiscal relations between the various layers of government.</p> <p><b>Policy Invitations:</b></p> <p>Substantiate the measures deemed necessary to underpin the planned consolidation from 2011 onwards, in order to achieve the recommended average annual fiscal effort of ¾% of GDP and bring the general government deficit below the 3% of GDP reference value by 2013;</p> <p>Seize, as prescribed in the EDP recommendation, any opportunities beyond the fiscal effort, including from better economic conditions, to reduce the revenue reduction of the crisis planned over the 2010-2012/2013 period versus the estimated average annual change in revenue (in % of GDP) and the revenue ratio in 2009.</p>
<p><b>PL</b></p>	<p><b>Summary Assessment:</b></p> <p>The overall conclusion is that while Poland is planning to correct its excessive deficit by 2012 in line with the Council recommendation under the excessive deficit procedure, the fiscal adjustment is considerably backloaded, most of the deficit reduction being projected to take place in 2012, and the large structural government deficit a more frontloaded fiscal consolidation strategy would be appropriate.</p> <p>Risks to fiscal targets reflect favourable real GDP growth assumptions, the lack of sizeable sufficiently concrete measures in support of fiscal targets from 2011 on, a history of current expenditure slippages compared to plans and impact of the electoral cycle. Intentions to strengthen the fiscal framework, in particular backed by expenditure rules, are welcome. With respect to the "temporary" expenditure rule a higher degree of ambition would be appropriate, notably in terms of the share of government finances covered by the rules.</p> <p><b>Policy Invitations:</b></p> <p>Implement the 2010 budget rigorously, under-executing primary current expenditure plans wherever possible and allocating windfall revenue to deficit reduction;</p>

Source: Commission services.

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Table (continued)

	<p>Strengthen the planned budgetary adjustment in 2011 in order to achieve the recommended average annual fiscal effort of 1¼ % of GDP in line with the Article 104 (7) Recommendation and stand ready to adopt further consolidation measures in 2011 and 2012 in case risks related to the fact that the programme scenario is more favourable than the scenario underpinning the recommendation under Article 104(7) TEC materialise;</p> <p>Proceed with strengthening the fiscal framework, including through introduction of an expenditure rule covering a larger share of the general government primary expenditure than the "temporary" rule presented in the Convergence Programme, with appropriate monitoring and enforcement mechanisms. This would require to reduce the share of statutory spending in total expenditures;</p>
<b>PT</b>	<p><b>Summary Assessment:</b></p> <p>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.</p> <p>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;</p> <p><b>Policy Invitations:</b></p> <p>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;</p> <p>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;</p> <p>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;</p> <p>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.</p>
<b>RO</b>	<p><b>Summary Assessment:</b></p> <p>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.</p> <p><b>Policy Invitations:</b></p> <p>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;</p> <p>Adopt and implement the draft pension law which would contribute to significantly improve the long-term sustainability of public finances;</p> <p>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;</p>

(Continued on the next page)

Table (continued)

<b>SI</b>	<p><b>Summary Assessment:</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>(i) optimistic revenue projections in 2010 followed by favourable growth assumptions after 2011;</li> <li>(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</li> <li>(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. In particular, data on net lending/borrowing vis-a-vis the rest of the world are not provided.</li> </ul> <p>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.</p> <p><b>Policy Invitations:</b></p> <p>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 macroeconomic scenario of the programme is more favourable than the scenario underpinning the Article 126(7) Recommendation materialise;</p> <p>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.</p> <p>Pursue efforts to enhance expenditure control and the enforceable nature of the multi-annual budgetary plans and improve public spending efficiency and effectiveness;</p>
<b>SK</b>	<p><b>Summary Assessment:</b></p> <p>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.</p> <p><b>Policy Invitations:</b></p> <p>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;</p> <p>Continue reforms of the pension system with a view to ensuring the sustainability of government finances;</p> <p>Implement the envisaged measures to further strengthen the fiscal framework, in particular the introduction of enforceable multiannual expenditure ceilings;</p>
<b>FI</b>	<p><b>Summary Assessment:</b></p> <p>The overall conclusion is that that the severe economic crisis has substantially weakened public finances, including the long-term sustainability position. The planned expansionary fiscal policies in 2010 are in line with the EERP. However, the programme's projections, based on current policies, indicate that the general government deficit would exceed the 3%-of-GDP reference value in 2010. Moreover, the projected sluggish medium term fiscal consolidation path would not ensure progress towards the programme's MTO. Taking also account of the downside risks attached to these projections, it would be highly desirable that the Government takes timely action to specify a comprehensive and concrete medium term fiscal strategy to consolidate from 2011 onwards.</p> <p>Implement the 2010 fiscal policy as planned in line with the EERP, while ensuring that the planned breach of the 3%-of-GDP reference value would remain contained and temporary;</p>

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Table (continued)

	<p><b>Policy Invitations:</b> Take timely action to define a comprehensive and concrete medium term fiscal strategy to consolidate from 2011 onwards, also with a view to achieve the MTO and to restore the long-term sustainability of public finances;</p>
SE	<p><b>Summary Assessment:</b> The overall conclusion is that large surpluses in good times allowed fiscal policy to play an active role in the downturn, in line with the spirit of the Stability and Growth Pact, not only by boosting demand in the short term but also by strengthening the economy's long-term growth potential. The fiscal stance is appropriately continuing to be expansionary in 2010 in line with the EERP. Although partly outdated, the programme projects the deficit to widen to 3.4% of GDP in 2010, from 2.2% in 2009, due mainly to the additional stimulus measures taking effect in this year. Thereafter, the deficit ratio is projected to gradually narrow to 2.1% of GDP in 2011 and 1.1% in 2012.</p> <p>This improvement is due mainly to assumed strong economic growth, as the programme does not envisage any consolidation efforts in these years. Overall risks to the planned adjustment seem somewhat tilted to the upside, with considerable upside risks in 2010 being partly compensated by downside risks in 2011-12. However, should budgetary outcomes fall short of the projected ones, the government would have to stand ready to adopt timely discretionary consolidation measures.</p> <p><b>Policy Invitations:</b> Implement the 2010 fiscal policy as planned in line with the EERP, while aiming to avoid breaching of the 3%-of-GDP reference value; ensure that the nominal budgetary adjustment projected in the programme is achieved, if necessary by timely adoption of consolidation measures to ensure that lower-than-expected growth does not derail the envisaged consolidation of government finances in the outer years of the programme, as well as to ensure progress towards the MTO;</p>
UK	<p><b>Summary Assessment:</b> The overall conclusion is that the fiscal strategy in the convergence programme is not sufficiently ambitious and needs to be significantly reinforced to be consistent with the Council recommendations under Article 126(7) TFEU of 2 December 2009. The combination of the operation of automatic stabilisers, falls in asset prices and the fiscal stimulus has provoked a major deterioration in UK public finances. However, the position of the public finances was further weakened by the fact that UK deficits were at risk of breaching the 3% of GDP reference value already in the period leading up to the crisis. A restrictive fiscal policy in 2010/11 is appropriate. A credible timeframe for restoring public finances to a sustainable position, as defined in the Stability and Growth Pact, requires substantial additional fiscal tightening measures beyond those currently planned.</p> <p>With the greater part of the projected reduction in the deficit in the medium term driven by the tight overall spending envelope between 2011/12 and 2014/15, the absence of detailed departmental spending limits to back up those expenditure targets is a source of uncertainty. The achievement of the consolidation forecast by the UK authorities is further clouded by the risk that the macroeconomic context could be less favourable than envisaged by the authorities, as well as the uncertainties relating to the banking sector loans and investments insured by government. Taking into account the negative risks to the UK fiscal projections, a more ambitious consolidation plan for the near and medium-term is required. Achieving primary surpluses in the medium term would also contribute to reducing the risks to the sustainability of public finances which were assessed in the Commission 2009 Sustainability Report as high in the United Kingdom</p> <p><b>Policy Invitations:</b> Avoid any further measures contributing to the deterioration of public finances in 2010/11 and in the event of weaker economic growth than foreseen in the programme contain the government deficit in 2010/11 to at most that forecast in the January 2010 programme 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; Target a more ambitious reduction of the government deficit to less than the 3% of GDP Treaty reference value by 2014/15 at the latest, including by strengthening the planned pace of fiscal effort from 2011/12 onwards in line with the Council recommendation under Article 126(7), and seize any further opportunities, including from better-than-expected economic and market conditions, to accelerate the reduction of the gross debt ratio towards the 60% of GDP reference value, thereby also improving the long-term sustainability of public finances; Publish in 2010 the detailed departmental spending limits underlying the overall expenditure projections for at least the three-year period beyond 2010/11; implement the expenditure efficiency savings identified in the Operational Efficiency Programme (OEP) and in other value for money initiatives;</p>

Source: Commission services.

The crisis-related fiscal expansions and the ageing of European Union's population raise questions about the sustainability of the Member States' public finances. As the share of working age people in the population falls and the share of the old increases, economies are faced with lower (potential) economic growth and higher costs associated with providing services for the ageing population.

Since the launch of the euro in 1999, the Commission has sought to integrate an examination of the sustainability of public finances into the existing EU framework for the surveillance of Member States' economic and budgetary policies, in line with the conclusions of the Stockholm (March 2001) and Barcelona (March 2002) European Council meetings and the March 2003 Ecofin Council. More recently and importantly, the 22-23 March 2005 European Council put increased emphasis on long-term sustainability issues in the context of the reform of the Stability and Growth Pact.

The assessment of long-term sustainability of public finances is a multifaceted issue and there is not a unique indicator that provides a clear response to what extent a country's public finances are sustainable in the long run. Hence, the Commission and the Council assess long-term sustainability of public finances by using both quantitative indicators and qualitative information so that panoply of factors affecting the long-run state of public finances in the Member States is reflected.

#### **4.1. THE APPROACH USED TO ASSESS THE LONG - TERM SUSTAINABILITY OF PUBLIC FINANCES**

A pragmatic definition of what constitutes a sustainable public finance position is used in the assessment by the Commission and the Council, namely whether on the basis of current policies and projected budgetary trends Member States will: (i) meet the government's intertemporal budget constraint so that the discounted value of future revenues matches the discounted value of future government expenditures and the level of outstanding debt; and, (ii) continue to comply with the budgetary requirements of EMU, and in particular, the Treaty requirement to keep debt

levels below the 60 percent of GDP reference value.

The main quantitative indicators that meet the above conditions for a sustainable public finance position are the sustainability gaps that measure the difference between the current and projected budgetary positions (S1 indicator) and that ensure sustainable public finances (S2 indicator).

The Commission and Council approach takes into account several factors to complement the available information on future quantitative budgetary trends. For this purpose, the Commission and the EPC Ageing Working Group produce a set of long-term budgetary projections for several budgetary items, reflecting expected demographic development and already approved reforms. The following section describes the new set of projections that were produced in 2009.

##### **4.1.1. New projections of the budgetary cost of ageing**

An increase in life expectancy, alongside a fall in fertility rates is leading to an accelerated ageing of the population in the EU and other parts of the world. Over the years to 2060, the EU population is set to age further. Aside from several social consequences, population ageing has significant economic consequences due to a reduction in the working age population and an increase in government expenditure. <sup>(1)</sup> Consequently, population ageing puts pressure on a country's public finances primarily through its effects on the labour market and hence economic growth and age-related expenditure. With fewer people being of working age, the potential growth rate of the economy is reduced. Indeed, these changes affect the S1 and S2 indicators, through changes in the estimated rate of economic growth.

The direct costs of ageing involve increases in age-related expenditure. The sustainability assessments use the estimates of the fiscal impact of these changes as presented in the 2009 Ageing Report. <sup>(2)</sup> As the aim is to provide an estimate of the long-

<sup>(1)</sup> Eurostat 'EUROPOP2008' populations projections.

<sup>(2)</sup> '2009 Ageing Report' joint report of the European Commission and the EPC, *European Economy*, 2, and Commission Communication 'Dealing with the Impact of an Ageing Population in the EU,' COM (2009) 180 final, 21 April 2009.

term effect on sustainability of ageing, the analysis takes the figures for age-related costs starting in 2010. The projections are made on a basis of no-policy change assumption where it is assumed that current tax and spending arrangements continue in the future. The 2009 Ageing Report considers the public cost of ageing using five expenditure categories, the projected changes to these categories are used to quantify the impact of ageing on the sustainability of the public finances.

Overall, on the basis of current policies, age-related public expenditure is projected to increase on average by 4.6 percentage points of GDP by 2060 in the EU – especially through pension, healthcare and long-term care spending. There are however marked differences in the impact of ageing across Member States:

- The increase in government spending in ageing-related categories is likely to be very significant (7 percentage points of GDP or more) in nine EU Member States (Luxembourg, Greece, Slovenia, Cyprus, Malta, the Netherlands, Romania, Spain, and Ireland), although for some countries the large increase will be from a fairly low level <sup>(3)</sup>.
- For a second group of countries – Belgium, Finland, Czech Republic, Lithuania, Slovakia, the United Kingdom and Germany – the cost of ageing is more limited, but still very high (between 4 and 7 percentage points of GDP).
- Finally, the increase is more moderate, 4 percentage points of GDP or less, in Bulgaria, Sweden, Portugal, Austria, France, Denmark, Italy, Latvia, Estonia, Hungary and Poland. Most of these countries have implemented substantial pension reforms, in several cases also involving a partial switch to private funded pension schemes (Bulgaria, Estonia, Latvia, Poland, and Sweden). <sup>(4)</sup>

<sup>(3)</sup> A number of countries are planning to introduce pension reforms in the near future. Should these be adopted the classification of these countries may change.

<sup>(4)</sup> In case of Hungary, the projection of age-related expenditure reflects the recent reforms of the pension scheme introduced in 2009, i.e. after the 2009 Ageing Report was released. The latest projections were endorsed by the AWG and the EPC and were used in the latest assessment of the long-term risk to public finance sustainability.

In addition to the budgetary projections above, the quantitative sustainability assessment also takes into account the future development of revenues coming from taxation of pensions and projections on property income.

#### 4.1.2. The sustainability indicators

The sustainability indicators provide a firm and objective basis to classify the long-term public finances sustainability risks in the EU Member States. The Commission uses the two core sustainability indicators, the S1 and the S2. The S1 indicator shows the durable adjustment to the current primary balance required to reach a target debt of 60% of GDP in 2060, including paying for any additional expenditure arising from an ageing population. The S2 indicator shows the durable adjustment of the current primary balance required to fulfil the infinite horizon intertemporal budget constraints, including paying for any additional expenditure arising from an ageing population. <sup>(5)</sup>

In general, the long-term sustainability assessment puts emphasis on the more stringent S2 indicator. This indicator is consistent with the concept of sustainability of public finances over an infinite horizon and is based on regarding budgetary developments and on the most recent comparable information regarding the long-term impact of ageing populations on public expenditure. Alongside the S2 indicator, the relative value of the S1 indicator is considered as it gives an indication of the urgency of any necessary reforms. Where the S1 indicator is markedly lower than the S2, the sustainability constraints will materialise further in the future and therefore allows the Member State a bit more time to implement the necessary reforms without risking as large an impact on their government gross debt. In case of a substantial difference between the S2 and S1 indicators, the country's long-term sustainability position is evaluated more favourably.

The 2010 SCP assessment of risks to long-term sustainability of public finances is based on the

<sup>(5)</sup> Further analysis including the derivation of the sustainability indicators can be found in the Commission publication 'Sustainability Report 2009', European Economy 9/2009.

Table I.4.1: Increase in age-related expenditure, 2010-2060, % of GDP

	Pension spending		Healthcare		Long-term care		Unemployment		Total	
	2010	Change 2010 to 2060	2010	Change 2010 to 2060	2010	Change 2010 to 2060	2010	Change 2010 to 2060	2010	Change 2010 to 2060
		2060		2060		2060		2060		2060
BE	10.3	4.5	7.7	1.1	1.5	1.3	7.3	-0.3	26.8	6.6
BG	9.1	2.2	4.8	0.6	0.2	0.2	3.0	0.2	17.1	3.2
CZ	7.1	4.0	6.4	2.0	0.2	0.4	3.3	0.0	17.0	6.3
DK	9.4	-0.2	6.0	0.9	1.8	1.5	8.0	0.1	25.2	2.2
DE	10.2	2.5	7.6	1.6	1.0	1.4	4.6	-0.4	23.3	5.1
EE	6.4	-1.6	5.1	1.1	0.1	0.1	3.2	0.3	14.8	-0.1
IE	5.5	5.9	5.9	1.7	0.9	1.3	5.3	-0.2	17.5	8.7
EL	11.6	12.5	5.1	1.3	1.5	2.1	3.8	0.1	21.9	16.0
ES	8.9	6.2	5.6	1.6	0.7	0.7	4.8	-0.2	20.0	8.3
FR	13.5	0.6	8.2	1.1	1.5	0.7	5.8	-0.2	29.0	2.2
IT	14.0	-0.4	5.9	1.0	1.7	1.2	4.3	-0.2	26.0	1.6
CY	6.9	10.8	2.8	0.6	0.0	0.0	5.8	-0.6	15.5	10.7
LV	5.1	0.0	3.5	0.5	0.4	0.5	3.3	0.3	12.3	1.3
LT	6.5	4.9	4.6	1.0	0.5	0.6	3.5	-0.4	15.1	6.0
LU	8.6	15.3	5.9	1.1	1.4	2.0	4.0	-0.3	19.9	18.2
HU	10.5	0.6	5.8	1.3	0.3	0.4	4.5	-0.3	21.0	2.0
MT	8.3	5.1	4.9	3.1	1.0	1.6	5.0	-0.7	19.2	9.2
NL	6.5	4.0	4.9	0.9	3.5	4.6	5.6	-0.2	20.5	9.4
AT	12.7	1.0	6.6	1.4	1.3	1.2	5.2	-0.2	25.7	3.3
PL	10.8	-2.1	4.1	0.8	0.4	0.7	3.8	-0.6	19.1	-1.1
PT	11.9	1.5	7.3	1.8	0.1	0.1	5.6	-0.4	24.9	2.9
RO	8.4	7.4	3.6	1.3	0.0	0.0	2.7	-0.2	14.7	8.5
SI	10.1	8.5	6.8	1.7	1.2	1.7	5.1	0.7	23.1	12.7
SK	6.6	3.6	5.2	2.1	0.2	0.4	2.9	-0.6	14.9	5.5
FI	10.7	2.6	5.6	0.8	1.9	2.5	6.4	0.0	24.7	5.9
SE	9.6	-0.2	7.3	0.7	3.5	2.2	6.6	0.0	27.1	2.7
UK	6.7	2.5	7.6	1.8	0.8	0.5	4.0	0.0	19.2	4.8
EU-27	10.2	2.3	6.8	1.4	1.3	1.1	4.9	-0.2	23.2	4.6
EA	11.2	2.7	6.8	1.3	1.4	1.3	5.0	-0.2	24.5	5.1

Source: Commission services and Economic Policy Committee.

Ageing Report budgetary projections.<sup>(6)</sup> In addition, the assessment reflects developments of public finances as designed in the national stability and convergence programmes by individual Member States.

#### 4.1.3. Additional factors

To make an overall assessment on the sustainability of public finances, other additional relevant factors, not (or not sufficiently) reflected in the sustainability indicators, are taken into account in order to better qualify the assessment with regard to where the main risks are likely to stem. Taking into account these other relevant factors may lead to a somehow different overall assessment than the one that would result from evaluating the sustainability indicators only. Next, the additional factors tend to be reflected more once the country of interest is not easy to decide to

which group it belongs to. Table I.4.2 presents the elements when reaching an overall assessment for the 27 Member States.

The level of the outstanding government debt is arguably the most important additional factor. Indeed, while the sustainability indicators already include information on the current level of debt, they do not incorporate all the specific risks faced by countries with a large initial level of debt. First, high-debt countries are more sensitive to short/medium term shocks to economic growth and to interest rates changes. Second, a high level of debt may lead to higher interest rate than assumed in the projections and increase further the risks to public finance sustainability. Third, when calculating the sustainability indicators, it is assumed that all countries are able keep their primary balance as a share of GDP at its current level in the future. This factor is used symmetrically as a risk-increasing factor for very high debt countries (notably Belgium, Greece, Italy, Hungary and Portugal) and a risk-decreasing

<sup>(6)</sup> The only exception is Hungary which presented a new set of projections on age-related expenditure. These projections were endorsed by the AWG and EPC.

factor for very low debt countries (notably Bulgaria, Estonia, Luxembourg and Romania).

A country's primary balance is also informative with regards to changes to its debt level. A negative primary balance is associated with a rising debt burden while a positive one with falling debt as a share of GDP. The Commission 2009 autumn forecast is used to look at the structural primary balance evolution over the years 2008 to 2011. The forecast deterioration of the structural primary balance is seen as risk increasing factor for twelve Member States (Denmark, Germany, Ireland, Spain, France, Cyprus, Luxembourg, Netherlands, Portugal, Finland, Sweden and United Kingdom), of which three (Denmark, Cyprus and Finland) have a particularly marked deterioration which should be flagged as a strong risk-increasing factor.

The evolution of the benefit ratio is strongly driven by the pension system. The benefit ratio is the average benefit for public pension and public and other pensions, respectively, as a share of the economy-wide average wage (gross wages and salaries in relation to employees), as calculated by the Commission.<sup>(7)</sup> A decrease in the public benefit ratio usually leads to a reduction (or slowdown) in government expenditure in pensions. However, it can also lead to other risks to public finances, if: (i) it leads to a substantial increase in the poverty rate of older people, which may require government assistance; (ii) moreover, the projected fall in the benefit ratio may be associated with a large increase in the relative share of social contributions that are diverted from social security or other public pension schemes to private schemes, which may affect public revenue. The sustainability indicators in Poland are clearly dependent on such a marked decrease in the benefit ratio that there is significant upward risk to the sustainability gap from political pressure. For Austria, Portugal and Sweden the decrease is also an additional risk. Conversely, the high and increasing benefit ratio for Greece must be seen an indication of the types of reforms that are necessary in the country to address its very large sustainability gap.

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(7) Besides the benefit ratio also other indicators on the adequacy of pension systems exist. See <http://ec.europa.eu/social/main.jsp?langId=en&catId=752>

A high current tax ratio leaves limited room of manoeuvre for using tax increases to finance additional public expenditure as compared to a lower tax ratio. This is the case for Belgium, Denmark, Italy and Sweden, with Belgium combining a high tax ratio with a need to reduce its very high debt. By contrast, low tax ratios are not considered to be a risk-reducing factor, since a possible decision regarding an increase of the tax ratio would not only take into account the financing needs resulting from ageing but would depend on the size of public procurement of good and services, the effectiveness of tax systems, the structure of the tax system and its impact on growth.

## 4.2. OVERALL ASSESSMENT

There is a large variation in the degree of risks that the Member States are facing and where they mainly come from. Overall, compared with last year's assessments and taking account of the Commission's Spring 2010 Forecast, more Member States showed larger sustainability gaps only few improved their long-term sustainability position.

It should be noted that countries with different characteristics can overall face a similar degree of risks to fiscal sustainability. For example, the projected cost of ageing can be high while the budgetary position is relatively sound. By contrast, a country might have a projected cost of ageing which actually improves its long-term sustainability while its sustainability difficulties arise mainly from its weak budgetary position. In deed the priorities in the two cases are different; in the former case reforms to the social security systems that would curb the increase in age-related expenditure are needed, while in the latter case consolidation efforts would be appropriate.

### **Countries that have come furthest in coping with the sustainability challenge**

Bulgaria, Denmark, Estonia, and, Sweden have in general come furthest in coping with ageing, which implies a strong budgetary position (running large surpluses prior to the crisis, reducing debt and/or accumulating assets) and/or comprehensive pension reforms, sometimes including a shift

towards private funded pension schemes, and present therefore a low long-term risk.

For Bulgaria, Denmark, Estonia and Sweden the forecast increases in age-related expenditure are amongst the lowest in EU and their current structural primary balances are either in or close to surplus. This does not mean that in these countries there are no risks regarding the long-term sustainability of public finances however, but that their social protection systems (pension and healthcare) at present appear able to deal with the pressures of an ageing population on current estimates. In particular, in case of Bulgaria and Estonia, a positive impact of low debt level and implemented pension reforms should be seen in the context of the ongoing convergence to the levels observed in the rest of EU.