ANNEX

1. Czech Republic

The Council recommendation under Article 104(7) recommended to the Czech authorities to correct the excessive deficit by 2008 and to "take effective action by 5 November 2004 regarding the measures envisaged to achieve the 2005 deficit target" [in the May 2004 convergence programme].

The 2005 deficit target was set at 4.7% of GDP in the May 2004 convergence programme. The budget for 2005 also targets a deficit of 4.7% of GDP in 2005, which is confirmed in the December 2004 update of the convergence programme.

Action taken

In summer 2004, the Czech Parliament passed a law on new budgetary rules, which introduced fiscal targeting based on medium-term expenditure ceilings for central government. The path for deficit reduction presented in the May 2004 convergence programme is to a large extent determined by the fulfilment of expenditure ceilings. With each annual budget for year *n*, the Parliament will approve nominal expenditure ceilings for years *n+1* and *n+2*. Any later upward revision of the ceilings is allowed only in situations explicitly mentioned in the law on budgetary rules. Although the expenditure ceilings will become legally binding only in 2006, the government accepted them as voluntary guidelines already for the 2004 and 2005 budgets. The 2005 state budget was approved by the government on 21 September 2004 and adopted by the Parliament on 15 December 2004. The budget largely respects the 2005 expenditure ceiling, leading to a sharp decline in the expenditure ratio, and includes revenue cuts worth 0.7% of GDP.

According to the latest official estimates, the deficit would fall to 5.2% in 2004, including one-off operations to the tune of 1.3% of GDP (from a deficit of 12.6% of GDP in 2003, including a major one-off operation of about 7% of GDP). The deficit is targeted to decrease further to 4.7% of GDP in 2005 and to 3.8% of GDP in 2006. The debt-to-GDP ratio would remain below 60% of GDP over the forecast horizon.

Assessment

The Commission services autumn 2004 economic forecasts, which were published on 26 October 2004, confirm that the macroeconomic projections underlying the 2005 budget are broadly plausible and that the consolidation impact of the envisaged measures is sufficient to achieve the 2005 deficit target in the May 2004 convergence programme as confirmed in the 2005 budget. In particular, against the background of the projected economic recovery and the corrective measures taken by the government, the projections by Commission services show a decline in the deficit to 4.7% of GDP in 2005. If the expenditure ceilings of individual budget lines are applied prudently, the authorities could even over-achieve the 2005 deficit target. The prudent implementation of expenditure ceilings is backed by the Council recommendation "to implement with vigour the measures envisaged in the May 2004 convergence programme, in particular a cut in the wage bill of central government and a reduction in spending of individual ministries" and by the invitation to the Czech Republic "to allocate higher-than-budgeted revenues to deficit reduction."

To meet the expenditure ceilings in 2006, important expenditure cuts, particularly regarding government consumption, still need to be agreed upon. In the absence of detailed measures and in view of the possibility of spending pressures ahead of the next regular parliamentary elections scheduled for 2006, the expenditure ceilings are not taken into account in the Commission services' no-policy change forecast for 2006, which projects a deficit of 4.3% of GDP. If expenditure ceilings are fully applied, the deficit target of 3.8% of GDP is in reach.

Conclusion

On current information and on the basis of the measures detailed in the 2005 budget it appears that the Czech government has taken effective action regarding the measures envisaged to achieve the 2005 deficit target, by the deadline of 5 November, in response to the recommendation under Article 104(7) to correct the excessive deficit by 2008 at the latest. Accordingly, the Commission concludes that no further steps are necessary at this point under the excessive deficit procedure.

Table 1: Czech Republic - Key budgetary figures 2003-2006 (% of GDP)

	2003	2004	2005	2006
General government balance				
National authorities				
- May 2004 convergence programme	-12.9	-5.3	-4.7	-3.8
- budget 2005		-4.8	-4.7	-3.8
- Dec. 2004 convergence programme	-12.6	-5.2[a]	-4.7	-3.8
Commission services (Autumn 2004 forecasts)	-12.6	-4.8	-4.7	-4.3
General government revenue				
National authorities				
- May 2004 convergence programme	47.4	47.4	46.9	46.8
- Dec. 2004 convergence programme	41.9	42.3	41.0	40.8
Commission services (Autumn 2004 forecasts)	41.9	41.9	41.6	41.5
General government expenditure				
National authorities				
- May 2004 convergence programme	60.3	52.7	51.6	50.6
- Dec. 2004 convergence programme	54.5	47.6	45.7	44.6
Commission services (Autumn 2004 forecasts)	54.5	46.7	46.3	45.8
General government debt				
National authorities				
- May 2004 convergence programme	37.6	38.4	39.7	41.0
- budget 2005	n.a.	n.a.	n.a.	n.a.
- Dec. 2004 convergence programme	37.8	38.6	38.3	39.2
Commission services (Autumn 2004 forecasts)	37.8	37.8	39.4	40.6
p.m.: real GDP growth (%)				
National authorities				
- May 2004 convergence programme	2.9	2.8	3.1	3.3
- budget 2005	3.1	3.8	3.6	n.a.
- Dec. 2004 convergence programme	3.1	3.8	3.6	3.7
Commission services (Autumn 2004 forecasts)	3.1	3.8	3.8	4.0

Note: [a] According to the December 2004 convergence programme the expected 2004 general government deficit of 5.2% of GDP includes two major one-off operations: (i) the capital injection of almost 13 billion CZK (about 0.5% of GDP) to the state-owned company Aero, caused by the exit of the strategic partner Boeing; and (ii) an imputed capital transfer of 22.5 billion CZK (about 0.8% of GDP) in relation to guarantees granted to the banking sector in the mid-1990s, which the Czech government decided to impute already in 2004 in the light of a better-than-expected budgetary outcome and of an increasing likelihood that this guarantee will be fully called upon by 2007. Without these two one-off operations, the 2004 deficit would be about 4% of GDP, i.e. much better than originally expected. *Sources*: Commission services autumn 2004 economic forecasts; budget 2005; May 2004 and December 2004 convergence programmes

2. Cyprus

The Council recommendation under Article 104(7) recommended to the Cypriot authorities to "take effective action by 5 November 2004 in order to achieve their objective of bringing the deficit below 3% of GDP in 2005 in a credible and sustainable manner, as specified in the Council Opinion of 5 July 2004 on the convergence programme submitted in May 2004.

The 2005 deficit target was set at 2.9% of GDP in the May 2004 convergence programme. The budget for 2005 also targets a deficit of 2.9% of GDP in 2005, which is confirmed in the December 2004 update of the convergence programme.

Action taken

The draft 2005 budget was presented to parliament on 11 October 2004 and should be approved by end-December. According to the projections in the 2005 budget, the deficit would fall to 5.2% of GDP in 2004 (from 6.4% of GDP in 2003) and would decrease further to 2.9% of GDP in 2005, i.e. just below the reference value of 3% of GDP. The debt-to-GDP ratio would inch down from 72.6% in 2004 to 72.3% of GDP in 2005[2]. There are no projections for 2006 in the budget.

The 2005 budget is consistent with the commitments and budget plans set out in the May 2004 convergence programme. The deficit reduction in 2005 is achieved both through revenue increases and expenditure restraint. The expenditure measures appear to be mostly structural (such as a cap on current expenditure and an increase in the retirement age for public sector employees), thus having a deficit-reducing impact also in subsequent years. Nominal expenditure growth curbs on the main expenditure components lead to a decrease of 0.4 percentage point in the expenditure-to-GDP ratio. Chief elements are the restrained growth of wages and salaries (accounting for 25% of government expenditure) and capital expenditure. Revenue measures are a mix of structural and one-off (such as a tax-amnesty and fees for issuance of title deeds for certain real estate). Some of these measures have been delayed in 2004 and are now planned to be implemented in 2005, giving a somewhat higher emphasis on revenue growth in 2005 compared to the May 2004 convergence programme. The budget foresees an increase of 1.9 percentage points in the revenue-to-GDP ratio, with as main revenue growth elements social security contributions and indirect taxes.

Assessment

The Commission services autumn 2004 economic forecasts, published on 26 October 2004, confirm that the macroeconomic projections underlying the 2005 budget are broadly plausible but could turn out to be somewhat optimistic, and that the consolidation impact of the envisaged measures could be sufficient to achieve the 2005 deficit target in the May 2004 convergence programme as confirmed in the budget. Most of the measures appear to be of a structural nature, in line with the Council recommendation, and implementation has been – mostly- on track. At the same time, the debt-to-GDP ratio is targeted to start a decline from a peak of 72.6% in 2004 to 72.3% of GDP in 2005, in line with the Council recommendation.

[2] In November 2004, the Statistical Service produced a revision of National Accounts for the period 1995-2003 in the context of adopting ESA95. This brought small across-the-board upward revisions of nominal GDP of 1.5-3.9% for the period 1995-2003. The moderate upward revisions in GDP led to marginal downward corrections of the government deficit and debt ratios. In addition, some further minor revisions in the debt ratio for 2004 and 2005 were introduced but these adjustments were not yet taken on board in the 2005 budget.

Against the background of the somewhat more muted projected economic recovery and the corrective measures taken by the government, the estimates by Commission services show a decline in the deficit ratio to 3.0% of GDP in 2005 and, on a no-policy change basis, to 2.4% in 2006. Given that, for 2005, the Commission services GDP growth forecast is moderately lower than that of the authorities, additional fiscal consolidation measures might become necessary in order to bring the deficit below the 3% of GDP reference value in 2005.

Conclusion

On current information and on the basis of the measures detailed in the 2005 budget it appears that the Cyprus government has taken effective action regarding the measures envisaged to achieve the 2005 deficit target, by the deadline of 5 November, in response to the recommendation under Article 104(7) to correct the excessive deficit by 2005 at the latest. Accordingly, the Commission concludes that no further steps are necessary at this point under the excessive deficit procedure.

Table 2: Cyprus - Key budgetary figures 2003-2006 (% of GDP)

	2003	**2004**	**2005**	**2006**
General government balance				
National authorities				
- May 2004 convergence programme	-6.3	-5.2	-2.9	-2.2
- budget 2005	-6.4	-5.2	-2.9	-2.2
- Dec. 2004 convergence programme		-4.8	-2.9	-1.7
Commission services (Autumn 2004 forecasts)	-6.4	-5.2	-3.0	-2.4
General government revenue				
National authorities				
- May 2004 convergence programme	38.5	39.4	40.4	40.7
- Dec. 2004 convergence programme	39.1	39.0	40.1	40.5
Commission services (Autumn 2004 forecasts)	39.7	40.4	41.4	41.4
General government expenditure				
National authorities				
- May 2004 convergence programme	44.8	44.6	43.3	42.9
- Dec. 2004 convergence programme	45.4	43.8	43.0	42.2
Commission services (Autumn 2004 forecasts)	46.1	45.6	44.4	43.9
General government debt				
National authorities				
- May 2004 convergence programme	72.6	75.2	74.8	71.5
- budget 2005	70.9	72.6	72.3	69.1
- Dec. 2004 convergence programme		74.9	71.9	69.2
Commission services (Autumn 2004 forecasts)	70.9	72.6	72.4	69.4
p.m.: real GDP growth (%)				
National authorities				
- May 2004 convergence programme	2.0	3.5	4.3	4.4
- budget 2005	2.0	3.5	4.3	4.4
- Dec. 2004 convergence programme	1.9	3.6	4.0	4.4
Commission services (Autumn 2004 forecasts)	2.0	3.5	3.9	4.2

Sources: Commission services autumn 2004 economic forecasts; 2005 budget; May 2004 and December 2004 convergence programmes

3. Malta

The Council recommendation under Article 104(7) recommended to the Maltese authorities to correct the excessive deficit by 2006 and to "take effective action by 5 November 2004 regarding the measures envisaged to achieve the 2005 deficit target" [in the May 2004 convergence programme].

The 2005 deficit target was set at 3.7% of GDP in the May 2004 convergence programme. The budget for 2005 also targets a deficit of 3.7% of GDP in 2005, which is confirmed in the December 2004 update of the convergence programme.

Action taken

Malta's 2005 budget was unveiled on 24 November 2004 and targets a decline in the deficit ratio from 5.2% in 2004 to 3.7% in 2005. Two-thirds of the total deficit reduction by 1.5 percentage points represent structural measures consisting mainly of an increase in taxes, while the remaining third will be generated through one-off measures.

The more significant structural measures include the introduction of a 3% excise duty to be levied on all mobile telephony services, the increase of the departure tax on airfares to MTL 20 per passenger, the imposition of VAT and excise duty on kerosene, the increase in excise duty on tobacco and cigarettes, the broadening of the items on which the eco-contribution is imposed, a tax on video lottery terminals and adjustments to the computations of the capital gains tax on sale of inherited real estate property.

As regards one-off measures, revenues will receive a temporary boost from the sale of government property and from revenues to be raised from listed/unlisted companies. At the same time, one-off items on the expenditure side will temporarily affect the budget outcome in 2005, especially the acquisition of real estate for the housing of government activities in Brussels, the hosting in Malta of the Commonwealth's Heads of Government Meeting during 2005 and expenditure on the hospital which is now targeted to be completed during 2008.

According to the 2005 budget, the debt ratio is projected to fall after 2005 thanks to privatisation proceeds.

Assessment

The Commission services autumn 2004 economic forecasts, published on 26 October 2004, estimate that the general government deficit has been brought down from 9.7% of GDP in 2003 to 5.1% in 2004[3], slightly better than the target for 2004 set in the May 2004 convergence programme (5.2%). The Commission services forecast confirms that the macroeconomic projections underlying the 2005 budget are broadly plausible. The deficit forecasts for 2005 and 2006 are on a no-policy change basis because they were finalised before the 2005 budget was presented. In the light of the previous budgetary implementation and in the absence of eventual external shocks which could severely impact on the macro-economic scenario due to the openness of the Maltese economy, the budgetary target set in the 2005 budget seems plausible.

[3] The 2003 general government deficit was also affected by a one-off measure in the public shipyards amounting to 3.2% of GDP.

According to the 2005 budget, the debt ratio would already decline in 2005 owing to privatisation proceeds, which were not known at the time of the finalisation of the Commission services forecasts.

Conclusion

On current information and on the basis of the measures detailed in the 2005 budget it appears that the Maltese government has taken effective action regarding the measures envisaged to achieve the 2005 deficit target in response to the recommendation under Article 104(7) to correct the excessive deficit by 2006 at the latest. While the budget for 2005 was presented after the 5 November deadline, this does not change the assessment of effective action because the no-policy change projection for the 2005 deficit in the Commission services autumn 2004 forecast was broadly in line with the target set in the May 2004 convergence programme. Accordingly, the Commission concludes that no further steps are necessary at this point under the excessive deficit procedure.

Table 3: Malta - Key budgetary figures 2003-2006 (% of GDP)

	2003	2004	2005	2006
General government balance				
National authorities				
- May 2004 convergence programme	-9.7	-5.2	-3.7	-2.3
- budget 2005	-9.6	-5.2	-3.7	-2.3
- Dec. 2004 convergence programme	-9.6	-5.2	-3.7	-2.3
Commission services (Autumn 2004 forecasts)	-9.6	-5.1	-4.0	-3.3
General government revenue				
National authorities				
- May 2004 convergence programme	42.8	45.3	45.2	43.9
- Dec. 2004 convergence programme	40.7	44.7	45.9	44.5
Commission services (Autumn 2004 forecasts)	39.8	47.3	46.7	45.9
General government expenditure				
National authorities				
- May 2004 convergence programme	52.4	50.5	48.9	46.3
- Dec. 2004 convergence programme	50.3	49.9	49.7	46.8
Commission services (Autumn 2004 forecasts)	49.4	52.4	50.7	49.2
General government debt				
National authorities				
- May 2004 convergence programme	72.0	72.1	72.4	70.5
- budget 2005	70.4	72.7	72.6	70.5
- Dec. 2004 convergence programme	70.4	73.2	72.0	70.5
Commission services (Autumn 2004 forecasts)	70.4	72.4	73.7	74.2
p.m.: real GDP growth (%)				
National authorities				
- May 2004 convergence programme	-1.7	1.1	1.7	2.1
- budget 2005	0.2	1.0	1.7	2.1
- Dec. 2004 convergence programme	-0.3	0.6	1.5	1.8
Commission services (Autumn 2004 forecasts)	0.2	1.0	1.5	1.8

Sources: Commission services autumn 2004 economic forecasts; 2005 budget; May 2004 and December 2004 convergence programmes

4. Poland

The Council recommendation under Article 104(7) recommended to the Polish authorities to correct the excessive deficit by 2007 and to "take effective action by 5 November 2004 regarding the measures envisaged to achieve the 2005 deficit target" [in the May 2004 convergence programme].

The 2005 deficit target was set at 4.2% of GDP in the May 2004 convergence programme. The budget for 2005 targets a slightly better deficit of 3.9% of GDP in 2005, which is confirmed in the December 2004 update of the convergence programme.

Action taken

According to the latest estimates, the 2004 general government deficit is expected to reach 5.4% of GDP, better than the initial target of 5.7%. The growth forecast for 2004 has been revised upwards from 5% in the May 2004 convergence programme to 5.7%.

At its meeting on 28 September, the government approved the draft budget for 2005 together with the underlying macroeconomic assumptions and sent it to Parliament[4]. The data for 2004-2006, on which the budgetary projections are based, are revised compared to those in the May convergence programme. The draft foresees a reduction of the general government deficit from 5.6% of GDP in 2004 to 3.9% in 2005, better than the target of 4.2% in the May convergence programme. The deficit would decrease further to 3.1% of GDP in 2006, again below the initial target of 3.3%. The debt-to-GDP ratio would undershoot the targets in the May convergence programme and remain below 60% of GDP over the forecast horizon.

Measures from the *Hausner plan* contained in the draft budget for 2005 that require legislative procedures would have a deficit-reducing impact of 1.1 percentage points in 2005 and 0.8 percentage points in 2006:

- The measures <u>endorsed</u> by Parliament are expected to bring savings of 0.6% of GDP in 2005 and 0.3% in 2006.
- The measures <u>in the final stage</u> of discussion in Parliament represent savings of 0.3% of GDP in both 2005 and 2006.
- Measures contained in the draft budget for 2005 that are <u>in the initial stage</u> of discussion in Parliament represent 0.2% of GDP in both 2005 and 2006.

The authorities expect to achieve a further deficit reduction (up to 0.6% of GDP in 2005) by implementing additional measures, which do not require approval by Parliament, such as a widening of the tax base.

Overall, the measures adopted and planned appear to be for the largest part of a structural nature (reflecting rationalisation and savings in social spending), thus having a deficit-reducing impact also in subsequent years.

After the deadline of 5 November, Parliament rejected two measures of the *Hausner* plan, which represent in total 0.2% of GDP (0.17% of GDP on the revenue side and 0.03% of GDP

[4] The parliament will have to pass the budget by the end of January 2005. Deputies can amend the bill but cannot change the headline deficit figure.

on the expenditure side). Despite the rejection, the government decided to keep the deficit target for 2005 unchanged at 3.9% of GDP.

Assessment

The Commission services autumn 2004 economic forecasts, which were published on 26 October 2004, confirm that the macroeconomic projections underlying the 2005 budget are broadly plausible and that the consolidation impact of the envisaged measures is sufficient to achieve the 2005 deficit target in the May 2004 convergence programme as confirmed in the budget. In particular, against the background of the projected strong growth and the corrective measures taken by the government, the projections by Commission services show a decline in the deficit to 4.1% of GDP in 2005 from the estimated 5.6% in 2004 and, on a no-policy change basis, further to 3.1% in 2006[5].

Measures contained in the draft budget for 2005 that are in the initial stage of discussion in Parliament were not included in the autumn forecasts. On a no-policy change basis, measures that do not require any legislative work and that are not implemented yet, such as the widening of the taxation base, were also ignored in the forecasts.

Following the rejection by Parliament of two measures of the *Hausner* plan (representing 0.2% of GDP), there is still uncertainty over the implementation of the remaining measures that require legislative procedures but contained already in the draft budget for 2005.

Conclusion

On current information and on the basis of the measures detailed in the 2005 budget it appears that the Polish government has taken effective action regarding the measures envisaged to achieve the 2005 deficit target, by the deadline of 5 November, in response to the recommendation under Article 104(7) to correct the excessive deficit by 2007 at the latest. Accordingly, the Commission concludes that no further steps are necessary at this point under the excessive deficit procedure.

[5] It should be noted that the quoted public finance figures, as reported by Poland, classify the defined contribution funded pension schemes (open pension funds) inside the government sector. On 2 March 2004 Eurostat published a decision on classification of funded pension schemes in case of a government responsibility or guarantee. It has appeared that some Member States might need a transitional period to implement the decision and to avoid disruptions in the conduct of their budgetary policies. On 23 September 2004, Eurostat announced that the transitional period will expire with the notification of March 2007. Implementing the Eurostat decision by Poland would mean revising upwards the general government deficit by approximately 1.5 percentage points as from 2005. The debt ratio will also deteriorate by approximately 4.5 percentage points. The Eurostat ruling on the classification of the funded pension scheme will have to be taken into account in the budgetary projections in due course. In the absence of additional savings measures, reducing the deficit to below the 3% reference level will most likely be delayed. Nevertheless, it should be clear that the reclassification of open pension funds in line with the Eurostat decision, and the consequent upward revisions of deficit and debt figures, will not in itself mean non compliance with the existing convergence programme.

Table 4: Poland - Key budgetary figures 2003-2006 (% of GDP)

	2003	2004	2005	2006
General government balance				
National authorities				
- May 2004 convergence programme	-4.1	-5.7	-4.2	-3.3
- budget 2005	-3.9	-5.4	-3.9	n.a.
- Dec. 2004 convergence programme	-3.9	-5.4	-3.9	-3.2
Commission services (Autumn 2004 forecasts)	-3.9	-5.6	-4.1	-3.1
General government revenue				
National authorities				
- May 2004 convergence programme[a]	50.9	50.6	50.4	50.0
- Dec. 2004 convergence programme[a]	43.7	43.2	44.5	44.8
Commission services (Autumn 2004 forecasts)	43.7	45.6	45.7	45.2
General government expenditure				
National authorities				
- May 2004 convergence programme[a]	55.0	56.3	54.6	53.3
- Dec. 2004 convergence programme[a]	47.6	48.6	48.4	48.0
Commission services (Autumn 2004 forecasts)	47.6	51.3	49.9	48.3
General government debt				
National authorities				
- May 2004 convergence programme	45.3	49.0	51.9	52.7
- budget 2005	45.4	45.9	49.1	n.a.
- Dec. 2004 convergence programme	45.4	45.9	47.6	48.0
Commission services (Autumn 2004 forecasts)	45.4	47.7	49.8	49.3
p.m.: real GDP growth (%)				
National authorities				
- May 2004 convergence programme	3.7	5.0	5.0	5.6
- budget 2005	3.8	5.7	5.0	n.a.
- Dec. 2004 convergence programme	3.8	5.7	5.0	4.8
Commission services (Autumn 2004 forecasts)	3.8	5.8	4.9	4.5

Note:
[a] Data from 2004 not according to the harmonised definition of revenue and expenditure.
Sources: *Commission services autumn 2004 economic forecasts; 2005 budget; May 2004 and December 2004 convergence programmes; Letter from the Polish Minister of Finance to Commissioner Almunia (04/11/2004)*

5. Slovakia

The Council recommendation under Article 104(7) recommended to the Slovak authorities to correct the excessive deficit by 2007 and to "take effective action by 5 November 2004 regarding the measures envisaged to achieve the 2005 deficit target" [in the May 2004 convergence programme].

The 2005 deficit target was set at 3.9% of GDP in the May 2004 convergence programme. The budget for 2005 targets a marginally better deficit of 3.8% of GDP in 2005, which is confirmed in the November 2004 update of the convergence programme.

Action taken

On 9 December 2004, the Slovak parliament adopted the budget for 2005, taking into account the government's detailed multi-annual budgetary framework spanning to 2007. The budget is in line with the deficit reduction path as presented in the May 2004 convergence programme. The deficit target for 2005 is 3.8% of GDP, marginally better than the 3.9% of GDP in the May convergence programme. It is 3.4% of GDP without the revenue loss stemming from the introduction of a funded pension pillar. For 2006, the deficit target in the budgetary framework as well as in the May convergence programme is 3.9% of GDP (including 1% of GDP resulting from the pension reform).

The budget 2005 incorporates the measures which underpinned the deficit target in the May convergence programme, in particular: (1) a systemic pension reform, leading to a re-direction of social security contributions to a newly introduced funded pension pillar; (2) the last tranches of the current government's health care reform agenda; and (3) further public sector rationalisation. These reform steps almost fully completed the current government's reform agenda, most of which had already been implemented in the budget year 2004 and which encompassed in particular a comprehensive tax reform package and changes in the social area.

Assessment

The Commission services autumn 2004 economic forecasts, which were published on 26 October 2004, confirm that the macroeconomic projections underlying the 2005 budget are broadly plausible. They also confirm that the measures presented in the budget are broadly sufficient to achieve the 2005 deficit target set in the May 2004 convergence programme, although some uncertainties remain on the revenue side, including with respect to VAT revenues, social contributions and to the revenue effect of the pension reform.

As regards the additional recommendations given in the 104(7) Council recommendation, the Slovak authorities have implemented the measures envisaged in the May 2004 convergence programme, in particular those related to further health care reforms and public sector rationalisation. With respect to the recommended acceleration of the fiscal adjustment if the implemented structural reforms result in higher growth than expected in the convergence programme, it seems that the authorities would have had some additional opportunities.

Conclusion

On current information and on the basis of the measures detailed in the 2005 budget it appears that the Slovak government has taken effective action regarding the measures envisaged to achieve the 2005 deficit target, by the deadline of 5 November, in response to the recommendation under Article 104(7) to correct the excessive deficit by 2007 at the latest. Accordingly, the Commission concludes that no further steps are necessary at this point under the excessive deficit procedure.

Table 5: Slovakia - Key budgetary figures 2003-2006 (% of GDP)

	2003	**2004**	**2005**	**2006**
General government balance[a]				
National authorities				
- May 2004 convergence programme	-3.6	-4.0	-3.9	-3.9
- budget 2005			-3.8	-3.9
- Nov. 2004 convergence programme	-3.7	-3.8	-3.8	-3.9
Commission services (Autumn 2004 forecasts)	-3.7	-3.9	-4.0	-4.1
General government revenue[b]				
National authorities				
- May 2004 convergence programme	37.4	37.4	37.9	36.9
- Nov. 2004 convergence programme	36.3	35.3	37.1	36.9
Commission services (Autumn 2004 forecasts)	35.4	34.4	34.3	33.7
General government expenditure[b]				
National authorities				
- May 2004 convergence programme	40.9	41.5	41.8	40.9
- Nov. 2004 convergence programme	40.0	39.1	40.4	39.8
Commission services (Autumn 2004 forecasts)	39.2	38.3	38.3	37.9
General government debt				
National authorities				
- May 2004 convergence programme	42.8	45.1	46.4	46.1
- budget 2005			44.9	45.3
- Nov. 2004 convergence programme	42.8	43.0	44.2	45.3
Commission services (Autumn 2004 forecasts)	42.6	44.2	45.2	45.9
p.m.: real GDP growth (%)				
National authorities				
- May 2004 convergence programme	4.2	4.1	4.3	5.0
- budget 2005	4.2	4.7	4.5	5.1
- Nov. 2004 convergence programme	4.2	5.0	4.5	5.1
Commission services (Autumn 2004 forecasts)	4.2	4.9	4.5	5.2

Notes:
[a] The general government deficit figures include the revenue-decreasing and hence, *ceteris paribus*, deficit-increasing effect of the introduction of a funded pension pillar in 2005; net of this effect, the government's current deficit targets are 3.4% of GDP for 2005 and 2.9% of GDP for 2006.
[b] Divergences in the revenue and expenditure ratios for the same year result predominantly from methodological differences, in particular with respect to consolidation and the delimitation of general government.
Sources: *Commission services autumn 2004 economic forecasts; budget 2005; May 2004 and November 2004 convergence programmes*