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Council closes excessive deficit procedures for Italy, Latvia, Lithuania, Hungary and Romania

The Council today[1] closed excessive deficit procedures for Italy, Latvia, Lithuania, Hungary and Romania, confirming that they have reduced their deficits below 3% of GDP, the EU's reference value for government deficits.

It adopted decisions[2] abrogating previous Council decisions[3] on the existence of excessive deficits in these five countries.

As a consequence, 16 of the EU's 27 member states remain subject to the excessive deficit procedure, down from 24 during a 12 month period in 2010-11. Many procedures were opened subsequent to the global financial crisis and recession of 2008 and 2009, and the EU's stability and growth pact is being used to support a return to sound fiscal positions.

Italy

The excessive deficit procedure for Italy was opened in December 2009, when the Council issued a recommendation[4] on corrective measures to be taken. Italy's general government deficit was projected to reach 5.3% of GDP in 2009, above the EU's 3% of GDP reference value.

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1 At a meeting of the Economic and Financial Affairs Council.
2 Under article 126(12) of the Treaty on the Functioning of the European Union (TFEU).
3 Adopted under TFEU article 126(6).
4 Under TFEU article 126(7).

The Council called on Italy to correct its deficit by 2012. To achieve this, it called for an average annual fiscal effort of at least 0.5% of GDP over the 2011-12 period.

Having peaked at 5.5% of GDP in 2009, Italy's general government deficit has been steadily brought down to reach 3.0% of GDP in 2012, in line with the deadline set by the Council.

Based on a no-policy-change assumption, the Commission's 2013 spring forecast projects deficits of 2.9% of GDP in 2013 and 2.5% of GDP in 2014, thus remaining below the 3% of GDP reference value.

The Council concludes that Italy's excessive deficit has been corrected.

Latvia

The excessive deficit procedure for Latvia was opened in July 2009, when the Council issued a recommendation on corrective measures to be taken. Latvia's general government deficit reached 4.0% of GDP in 2008 and it had requested assistance from international lenders, obtaining a €3.1 billion loan from the EU in January as part of a €7.5 billion package of assistance.

The Council called on Latvia to correct its deficit by 2012. To achieve this, it called for an annual average fiscal effort of at least 2.75% of GDP over the 2010-12 period.

Following general government deficits of 9.8% and 8.1% of GDP in 2009 and 2010 respectively, Latvia's deficit declined to 3.6% of GDP in 2011. Its economic adjustment programme, supported by the assistance from international lenders, was successfully completed in January 2012. Its deficit reached 1.2% of GDP in 2012, overachieving the target set by the Council.

The Commission's 2013 spring forecast projects that Latvia's general government deficit will amount to 1.2% of GDP in 2013 and decrease to 0.9% of GDP in 2014, thus remaining well below the 3% of GDP reference value.

The Council concludes that Latvia's excessive deficit has been corrected.

Closure of Latvia's excessive deficit procedure is a precondition for its intended adoption of the euro on 1 January 2014.

Lithuania

The excessive deficit procedure for Lithuania was opened in July 2009, when the Council issued a recommendation on corrective measures to be taken. Lithuania's general government deficit reached 3.2% of GDP in 2008.

The Council initially called on Lithuania to correct its deficit by 2011. In February 2010, it extended the deadline to 2012, in the light of a stronger-than-expected contraction in economic activity in 2009. It called for an average annual fiscal effort of at least 2.25% of GDP over the 2010-12 period.

Having peaked at 9.4% of GDP in 2009, Lithuania's general government deficit was reduced to 7.2% of GDP in 2010, 5.5% of GDP in 2011 and 3.2% of GDP in 2012.

Based on a no-policy-change assumption, the Commission's 2013 spring forecast projects deficits of 2.9% of GDP in 2013 and 2.4% of GDP in 2014.

The Council finds that, since the 3.2% of GDP deficit in 2012 can be considered close to the 3% reference value, and Lithuania's debt-to-GDP ratio is below the EU's 60% of GDP reference value for government debt, it is eligible to specific provisions regarding systemic pension reforms. Thus, taking into account a 0.2% of GDP net cost of Lithuania's pension reform in 2012, as confirmed by Eurostat, the Council considers that the excess over the 3% of GDP reference value can be explained.

In these conditions, it concludes that Lithuania's excessive deficit has been corrected.

<u>Hungary</u>

Hungary has been subject to an excessive deficit procedure since July 2004, longer than any other member state.

In July 2004, the Council called on Hungary to correct its deficit by 2008. It issued further recommendations in March 2005 and October 2006, having found in January 2005 and November 2005 that effective action had not yet been taken. In October 2006, it extended the deadline for correcting Hungary's deficit to 2009.

With the economic downturn however, the 2009 target could not be met, and Hungary obtained a €6.5 billion loan from the EU in November 2008 as part of a €20 billion package of assistance from international lenders.

In July 2009, the Council issued a revised recommendation, setting 2011 as the new target year for correcting the deficit. Although Hungary formally met that target in 2011, this was only thanks to one-off revenues amounting to almost 10% of GDP linked to the transfer of pension assets from private pension schemes to the state. The Council considered this not to be a structural and sustainable correction of the deficit. Consequently, in January 2012, it again found that Hungary's response to its recommendation had been insufficient.

In a further recommendation issued in March 2012, the Council called on Hungary to correct its deficit by 2012. To achieve this, it called for an additional fiscal effort to meet Hungary's deficit target of 2.5% of GDP in 2012, and for additional structural measures to ensure that the deficit in 2013 remains well below the 3% of GDP threshold, even after the phasing-out of one-off measures.

It also decided on the suspension of commitments under the EU's cohesion fund, as of 1 January 2013, on account of Hungary's failure to comply with its recommendations.

The Council however lifted the suspension in June 2012, as Hungary had meanwhile taken measures that would enable the 2012 deadline for correcting its deficit to be met.

According to Eurostat and the Commission's 2013 spring forecast, Hungary's general government deficit amounted to 1.9% of GDP in 2012. In the light of further corrective measures adopted in May 2013, the Commission projects deficits of 2.7% and 2.9% in 2013 and 2014 respectively, remaining below the 3% of GDP reference value.

The Council concludes that Hungary's excessive deficit has at last been corrected.

Romania

The excessive deficit procedure for Romania was opened in July 2009, when the Council issued a recommendation on corrective measures to be taken. Romania's general government deficit reached 5.4% of GDP in 2008 and it had requested assistance from international lenders in March 2009, obtaining a €5 billion loan from the EU as part of a €20 billion package of assistance.

In July 2009, the Council called on Romania to correct its deficit by 2011. In February 2010, it extended the deadline to 2012, in the light of a stronger-than-expected contraction in GDP in 2009. Romania's general government deficit had reached 9.0% of GDP in 2009, despite efforts to reduce expenditure. To meet the 2012 target, the Council called for an annual fiscal effort of 1.75% of GDP over the 2010-2012 period.

Romania's general government deficit was reduced to 6.8% of GDP in 2010, 5.6% of GDP in 2011 and 2.9% of GDP in 2012.

Based on a no-policy-change assumption, the Commission's 2013 spring forecast projects deficits of 2.6% in 2013 and 2.4% in 2014, thus remaining below the 3% of GDP reference value.

The Council concludes that Romania's excessive deficit has been corrected.