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REPORT FROM THE COMMISSION

ANNUAL REPORT ON THE COHESION FUND (2011)

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REPORT FROM THE COMMISSION

ANNUAL REPORT ON THE COHESION FUND (2011)

1. GENERAL CONTEXT

Convergence and economic development in the beneficiary Member States

1.1. Greece

In 2011, Greece's GDP per capita in PPS attained 82.3% of the EU-27 average. GDP fell by 6.9% in real terms in the same year, after having contracted by 3.5% in 2010. Annual inflation fell to 3.1% in 2011 from 4.7% in 2010, reflecting still persisting market rigidities. The 2011 public deficit outturn was 9.1% of GDP, which compares with the 8.0% of GDP target established in the 2011 State budget. This was mostly because of a more-severe-than-anticipated revenue shortfall, a worse-than-estimated balance of the social security sector and the accumulation of arrears in the other-than-state sectors. The debt-to-GDP ratio was 165.3% in 2011, up from 145.0% a year earlier.

Since May 2010, Greece has committed to implementing the economic and financial adjustment programme with the aim of correcting fiscal and external imbalances and restoring confidence in the short term. In 2010 and 2011, partial progress was made towards the ambitious objectives of the adjustment programme. Several factors hampered implementation: political instability, social unrest and issues of administrative capacity and, more fundamentally, a recession that was much deeper than previously projected. Important fiscal targets were missed, which led to the adoption of additional consolidation measures throughout 2010 and 2011. However, Greece achieved a substantial reduction in the general government deficit: from 15.6% of GDP in 2009 to 9.1% in 2011. As regards the excessive deficit procedure, Greece is subject of a Council decision to give notice under Article 126(9). Compliance with the Council decision is reviewed on a quarterly basis in the context of the economic adjustment programme.

On 21 February 2012, the Eurogroup agreed on a second economic adjustment programme for Greece. The implementation of the economic policies outlined in the Memorandum of Understanding on Specific Policy Conditionality will contribute to reduce the Greek public debt to 116.5% of GDP by 2020. It was agreed that the official sector financing of the programme would amount to EUR 130 billion until 2014, additional to the amounts committed in the first financing programme. By May 2012, Greece has received EUR 147.6 billion from official financing under the first and the second programme. The release of the tranches is based on compliance with quantitative performance criteria and a positive evaluation of progress made with respect to the policy criteria laid down in Council Decision 2011/734/EU of 12 July 2011 (as amended on 8 November 2011 and 13 March 2012) and the Memorandum of Understanding setting the economic policy conditionality, which was signed on 14 March 2012. The Programme's macroeconomic scenario is broadly conservative, with a cumulative loss in real GDP in 2010-12 of around 15%, driven by a decline in domestic demand, which is partly compensated by a significant contraction in imports and smooth export growth. Real GDP growth will not return to positive territory in 2012 - at the moment estimated at around – 6 % of GDP in real terms. The government deficit is projected to reach 7.3% of GDP in 2012, 4.6% in 2013 and 2.1% of GDP in 2014. The debt-to-GDP ratio is projected to peak at about 164.3% by 2013, decreasing thereafter.

On 10 July 2012 the Council recommended Greece to implement the measures laid down in Council Decision 2011/734/EU of 12 July 2011, as amended on 8 November 2011 and 13 March 2012, and the Memorandum of Understanding on specific economic policy conditionality, which was signed on 14 March 2012.

1.2. Spain

Spain's GDP per capita in PPS attained 99.8% of the EU-27 average in 2010, compared to 103% in the preceding year. After recording a significant contraction in 2009, when real GDP growth fell by 3.7%, the economy continued contracting in 2010, albeit by -0.3%, reflecting both the global economic downturn and a marked correction in the construction sector. The economy returned to positive economic growth in 2011 (0.4%), supported by the dynamism of Spanish exports and the contraction of imports, in line with the weakness of domestic demand. The downturn took a heavy toll on public finances. The general government deficit reached 9.3% of GDP in 2010, down from 11.2% in 2009. In July 2012, the Council issued a revised excessive deficit procedure (EDP) recommendation, granting Spain an additional year until 2014 to correct its excessive deficit. The agreed intermediate targets for the government deficit are now 6.3% of GDP for 2012, 4.5% of GDP for 2013 and 2.8% of GDP for 2014.

In its recommendation of 10 July 2012 the Council delivered an opinion on the 2012 stability programme of Spain pursuant to Regulation 1466/1997. The Council was of the opinion that the macroeconomic scenario underlying the programme is broadly plausible for 2012 and optimistic thereafter. The Commission's 2012 spring forecast projected GDP growth to reach -1.8% in 2012 and -0.3% in 2013, against -1.7% and 0.2%, respectively, in the programme. In compliance with the Excessive Deficit Procedure, the objective of the budgetary strategy outlined in the programme is to bring the general government deficit below 3% of the GDP reference value, based mainly on expenditure restraint, but also on some revenue-increasing measures. Based on structural balance1, the annual average improvement of the structural balance planned in the programme is 2.6% of GDP for 2011-13. Following the correction of the excessive deficit, the programme confirms the medium-term budgetary objective (MTO) of a balanced budgetary position in structural terms, which would be almost reached by 2015 with a structural budget deficit of 0.2% of GDP. The MTO adequately reflects the requirements of the Stability and Growth Pact. The envisaged pace of adjustment in structural terms in 2012-13, represents sufficient progress towards the MTO and the growth rate of government expenditure, taking into account discretionary revenue measures, is in line with the expenditure benchmark of the Stability and Growth Pact. The programme projects the government debt ratio to peak in 2013 and to start declining thereafter. In 2014 and 2015 Spain will be in transition period and plans presented in the programme would ensure sufficient progress towards compliance with the debt reduction benchmark of the Stability and Growth Pact. The deficit and debt adjustment paths are subject to important downside risks. Macroeconomic developments could turn out less favourable than expected. Moreover, measures are not sufficiently specified from 2013 onwards. Budgetary compliance by regional

[1] Recalculated by the Commission services, on the basis of information provided in the programme, following the commonly agreed methodology (hereafter: the (recalculated) structural balance).

governments, given their recent poor track record, a greater sensitivity of revenues to the ongoing structural adjustment, the uncertain revenue impact of the fiscal amnesty and potential further financial rescue operations also pose risks to the budgetary strategy. Strict enforcement of the Budget Stability Law and the adoption of strong fiscal measures at regional level would mitigate the risks of a slippage at regional level. Given the decentralised nature of Spain's public finances, a strong fiscal and institutional framework is essential.

In relation to its opinion on the 2012 update of the stability programme, the Council recommended that Spain should take action within the period 2011-2012 to: deliver an annual average structural fiscal effort of above 1.5% of GDP over the period 2010-13 as required by the EDP recommendation (new fiscal effort target set in the EDP procedure) by implementing the measures adopted in the 2012 budget and adopting the announced multi-annual budget plan for 2013-14 by end July. Spain should adopt and implement measures at regional level in line with the approved rebalancing plans and strictly apply the new provisions of the Budgetary Stability Law regarding transparency and control of budget execution. Finally Spain was recommended to establish an independent fiscal institution to provide analysis, advice and monitor fiscal policy, as well as to estimate the budgetary impact of proposed legislation.

1.3. Portugal

Portugal's GDP per capita in PPS amounted to 77.4 % of the EU-27 average in 2011. In 2011, GDP contracted by 1.7% in real terms. The decline in economic activity has been driven by an across-the-board fall in domestic demand. This was partly compensated by a significant positive growth contribution of net exports, as exports posted robust growth while imports shrank in line with domestic demand. The current account deficit fell by more than 3% of GDP to 6.5% of GDP, suggesting that the necessary external rebalancing of the economy is underway. The 2011 budget deficit outturn was 4.2% of GDP which compares with a target of 5.9%. While this reflects far-reaching consolidation efforts, the overachievement is mostly explained by the transfer of banks' pension funds to the state amounting to 3.5% of GDP. The debt-to-GDP ratio was at 107.8% in 2011. The excessive deficit procedure for Portugal is currently in abeyance, with the deadline for correction of the excessive deficit situation postponed to 2014.

According to the latest stability programme 2012-2016 submitted in May 2012 the targets for the general government deficit-to-GDP ratios are 4.5% in 2012, 3% in 2013, 1.8% in 2014, 1% in 2015 and 0.5% in 2016. These targets were reviewed in the Fifth review of the Economic Adjustment Programme (28 August-10 September) to 5.0% in 2012, 4.5% in 2013 and 2.5% in 2014. The overall structural adjustment in 2011-2013 including the second round effects of budgetary consolidation is estimated to be close to 8% of GDP. The debt-to-GDP ratio is projected to be at below 124% and to start declining in 2014. These targets are set against underlying growth assumptions of -3% in 2012, -1.0% in 2013 and 1.2% in 2014. The headline growth outlook for 2012 is better than initially projected, as exports remain strong, while prospects for 2013 and 2014 are slightly worse due to the effect of additional fiscal consolidation measures. On 17 May 2011, the Council adopted Implementing Decision 2011/344/EU to make available to Portugal medium-term financial assistance for a period of three years from 2011 to 2014. The accompanying Memorandum of Understanding signed on the same day and its successive supplements lay down the economic policy conditions on the basis of which the financial assistance is disbursed. A joint EC/ECB/IMF staff mission met with the Portuguese authorities in Lisbon from 28 August to 10 September for the Fifth

Review under the Economic Adjustment Programme. The successful completion of the Fifth Review will pave the way for the release of the next loan instalment of around EUR 4 billion, of which EUR 2.8 billion from the EU and about EUR 1.5 billion from the IMF.

On 10 July 2012 the Council recommended Portugal to implement the measures as laid down in Implementing Decision 2011/344/EU and further specified in the Memorandum of Understanding and its subsequent supplements.

1.4. Cyprus

In 2011, GDP per capita in PPS in Cyprus amounted to 91.5% of the EU-27 average. The Cypriot economy grew by a modest 0.5% in 2011. After a stronger first half year when GDP rose by 1.5% y-o-y thanks to an exceptionally good tourist season, economic activity was badly affected by the accident in July 2011 that destroyed the Vassilikos electricity producing plant, which accounted for half of the island's total generating capacity. Domestic demand, traditionally the main driver of growth, decreased considerably in 2011. Tightening bank lending conditions along with a worsening labour market outlook and weakening confidence weighed on private consumption. In addition, subdued foreign demand for housing and a restructuring of corporate balance sheets kept investment on a correction path for the fourth year in a row. On the other hand, the external sector made a positive contribution to growth. Revenues from tourism increased by 13%. In addition, import growth decelerated, in line with the contraction in domestic demand. Public finances also deteriorated with the government deficit increasing from 5.3% in 2010 to 6.3% in 2011 and the public debt increasing from 61.5% of GDP in 2010 to 71.6% of GDP in 2011. The Council in January 2011 concluded that Cyprus had taken action representing adequate progress towards the correction of the excessive deficit within the time limits set by the Council. In particular, it had taken measures to correct the excessive deficit by 2012, while ensuring an adequate fiscal effort in 2011, in line with the Council's recommendations. According to the Commission's January 2012 Communication, the excessive deficit procedure for Cyprus is currently in abeyance.

According to the latest stability programme, submitted in May 2012, the Cypriot authorities plan that the general government deficit would fall to 2.6% of GDP in 2012 and remain of a declining trend reaching 0.6% in 2013 and a balanced budget in 2014. The macroeconomic scenario underlying the programme envisages that real GDP will shrink slightly by 0.5% in 2012, before recovering mildly by 0.5% in 2013, 1.0% in 2014 and 1.5% in 2015. According to the Commission services' 2012 spring forecast, the government deficit is projected to decrease to 3.4% of GDP in 2012 and, assuming no policy change, will recede further to 2.5% in 2013. However, based on the 2012 Q2 GDP figures released in mid-August 2012, a considerable worsening of economic conditions is depicted with the 2012 fiscal deficit projected by the Cypriot authorities rising to 4.5% of GDP. In its 2012 spring forecast, the Commission expects public debt to increase to 76.5% of GDP in 2012 and 78.1% of GDP in 2013. Real GDP is expected to decline by 0.8% in 2012 and mildly grow by 0.3% in 2013.

In its recommendation of 10 July 2012 the Council delivered an opinion on the 2012 stability programme of Cyprus pursuant to Regulation 1466/1997. The Council was of the opinion that that the macroeconomic scenario underpinning the budgetary projections in the programme appears optimistic in 2012-2014. Although incorporating a major downward revision of the growth outlook, the macroeconomic scenario underpinning the budgetary projections in the programme remains subject to downside risks relating in particular to the evolution of domestic demand in 2012-2013. The objective of the budgetary strategy outlined in the programme is to correct the excessive deficit by 2012 and to reach MTO by 2014, and to stay at MTO in 2015. The programme confirms the previous MTO of a balanced budget in structural terms, which adequately reflects the requirements of the Stability and Growth Pact. The planned correction of the excessive deficit is in line with the deadline set by the Council recommendation issued in the context of the Excessive Deficit Procedure on 13 July 2010. Based on the structural deficit, the average annual fiscal effort planned at 1.5% of GDP for the period 2011-2012 is equal to the effort recommended by the Council. The envisaged progress towards the MTO in 2013 is sufficient as it is higher than the 0.5% of GDP benchmark of the Stability and Growth Pact both according to the Commission's 2012 spring forecast and the programme. The growth rate of government expenditure, taking into account discretionary revenue measures, is in line with the expenditure benchmark of the Stability and Growth Pact in 2013-2014, but not in 2015. There are risks accompanying the budgetary targets of the programme linked to the macroeconomic scenario appearing optimistic in 2012-2014 and the planned consolidation effort in 2013, party relying on not fully specified measures. According to the programme, the debt-to-GDP ratio, which amounted to 71.6% in 2011, is to increase to 72.1% in 2012 before gradually dropping to 65.4% in 2015. In terms of the debt reduction benchmark of the Stability and Growth Pact, Cyprus will be in a transition period in the years 2013-2015 and the plans presented in the programme would ensure sufficient progress towards compliance with the debt reduction benchmark. However, there are risks attached to this projection linked to the possible rescue operations of financial corporations.

In relation to its opinion on the 2012 stability programme, the Council recommended that Cyprus takes additional measures to achieve a durable correction of the excessive deficit in 2012 and rigorously implements the budgetary strategy, supported by sufficiently specified measures, for the year 2013 and beyond to ensure the achievement of the MTO by 2014 and compliance with the expenditure benchmark and ensure sufficient progress with the debt reduction benchmark. Cyprus should accelerate the phasing-in of an enforceable multiannual budgetary framework with a binding statutory basis and corrective mechanism and take measures to keep tight control over expenditure and implements programme and performance budgeting as soon as possible. Furthermore, Cyprus should take measures to keep tight control over expenditure and implement programme and performance budgeting as soon as possible. Finally, measures to improve tax compliance and fight against tax evasion should be considered. In addition, initiatives to render tax collection more efficient should be reinforced.

On 25 June 2012 Cyprus formally requested financial assistance from the EFSF/ESM, in view of the challenges that Cyprus is facing, in particular due to distress in the banking sector and the presence of macroeconomic imbalances.

1.5. Czech Republic

In 2011, the Czech Republic’s GDP per capita in PPS amounted to 79.6% of the EU average. After a year of moderate recovery, real GDP growth contracted for the first time since 2009 in the fourth quarter of 2011 (-0.2% q-o-q). Economic activity was driven by weaker but still solid external demand, while consumption and investment activity remained below their 2010 levels. Domestic demand was affected mainly by continuing fiscal consolidation efforts but also by a negative economic sentiment weighing on investment. Annual inflation averaged 2.1% in 2011 on account of temporary food and oil price shocks. The general government deficit in 2011 is estimated to have reached 3.1% of GDP, as compared to 4.8% in 2010. The general government deficit was significantly lower than expected in the 2011 convergence programme. The outturn reflected a large drop in public investment (by 15% year-on-year) as well as consolidation measures targeted mainly at the expenditure side. The main measures included a reduction in the wage bill in the public sector and in social expenditure, together with additional cuts in operational expenditure of the central government. General government debt increased to 41.2% of GDP in 2011. The excessive deficit procedure for the Czech Republic is currently in abeyance, with the deadline for correction of the excessive deficit situation in 2013.

According to the latest convergence programme submitted in April 2012, the general government deficit is set to decline gradually from 3% of GDP in 2012 to 2.9% in 2013 and 1.9% in 2014. The deficit reduction would continue in 2015 when the nominal deficit is set to reach 0.9% of GDP. The macroeconomic scenario underpinning the programme forecasts near-stagnation of GDP growth in 2012. The pace of economic recovery in 2013 is projected to be rather slow with real GDP growth reaching 1.3%. A gradual improvement of economic conditions is expected in 2014 and 2015 when growth is forecast to accelerate to 2.2% and 2.8% respectively. According to the Commission services' 2012 spring forecast, real GDP growth is expected to stall during 2012 and pick up to 1.5% in 2013. The government deficit is projected to reach 2.9% of GDP in 2012 and decline to 2.6% of GDP in 2013. The debt-to-GDP ratio is forecast to increase further over the forecast horizon, reaching around 45% in 2013.

In its recommendation of 10 July 2012 the Council delivered an opinion on the 2012 convergence programme of the Czech Republic pursuant to Regulation 1466/1997. The Council was of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible. The objective of the budgetary strategy outlined in the programme is to reach a balanced budget in 2016. The general government deficit target of 2.9% of GDP in 2013 is in line with the deadline for correcting the excessive deficit set out in the Council recommendations of 2 December 2009. The average annual fiscal effort of 0.9% of GDP over the period 2010-2013, based on the (recalculated) structural budget balance, is slightly below the effort of 1% of GDP recommended by the Council. The programme confirms the previous MTO of a deficit of 1% of GDP, which adequately reflects the requirements of the Stability and Growth Pact, to be reached in 2015. The progress towards the MTO is 0.8% and 0.7% of GDP in 2014 and 2015 respectively, based on the (recalculated) structural balance and the rate of growth of government expenditure complies with the expenditure benchmark of the Stability and Growth Pact. The budgetary projections of the programme are subject to several risks. The law on financial compensation to churches, currently discussed in Parliament, would increase the general government deficit by 1.5% of GDP once, in the year of entry into force. More generally, the nature and extent of the envisaged consolidation measures on both the revenue and the expenditure side entails a considerable risk for the sustainability of the fiscal adjustment beyond the programme period. Budgetary adjustment has so far relied mostly on across-the-board cuts, which affect also growth-enhancing expenditure. Additional savings in public administration expenditures amounting to almost 1% of GDP are planned for 2013 - 2015, but details are not sufficiently specified in the programme. Finally, most of the planned revenue measures are of a temporary nature and should expire in 2015. According to the programme, the debt-to-GDP ratio is expected to peak at 45.1% of GDP in 2013 and decline thereafter, mainly on account of the projected continuous improvement of the primary balance.

In relation to its opinion on the 2012 convergence programme, the Council recommended that the Czech Republic should take action within the period 2012-2013 to ensure planned progress towards the timely correction of the excessive deficit. To this end, it should fully implement the 2012 budget and specify measures of a durable nature necessary for the year 2013 so as to achieve the annual average structural adjustment specified in the Council recommendation under the Excessive Deficit Procedure. Thereafter, it should ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term objective, including meeting the expenditure benchmark. In this context, it should avoid across-the-board cuts, safeguard growth-enhancing expenditure and step up efforts to improve the efficiency of public spending; exploit the available space for increases in taxes least detrimental to growth; shift the high level of taxation on labour to housing and environmental taxation; reduce the discrepancies in the tax treatment of employees and the self-employed; and take measures to improve tax collection, reduce tax evasion and improve tax compliance, including by implementing the Single Collection Point for all taxes.

1.6. Estonia

In 2011, Estonia's GDP per capita in PPS amounted to 67% of the EU average. After a deep contraction of foreign trade and GDP in 2008 and 2009, the Estonian economy has rebounded promptly, with growth reaching 3.3% in 2010 and 8.3% in 2011 and exports the driving force behind the recovery. In 2011, private consumption and investment were also on a solid footing. In 2011, the general government budget position was a surplus of 1% of GDP, which was considerably better than the deficit of 0.4% projected in the 2011 stability programme. This was primarily a result of significantly stronger-than-expected economic and employment growth. In addition, the outcome was positively affected by the sizeable sales of the excess greenhouse gas emission certificates, which amounted to 1.2% of GDP in 2011, combined with delays in implementation of the related investment projects.

According to the latest stability programme submitted in April 2012, the targets for the general government deficit are 2.6% of GDP in 2012 and 0.7% in 2013. The improvement on 2012 primarily stems from an improving macroeconomic outlook and the gradual completion of Kyoto-related investment projects. The (recalculated) structural balance is expected to improve by 0.3% of GDP in 2013 reaching a balanced position. In the underlying macroeconomic scenario, real GDP is expected to grow by 1.7% in 2012 and 3.0% in 2013, while sustainable rates of around 3.5% on average are expected for 2014-16, with growth becoming more balanced as domestic demand recovers. Projections from the Commission services' spring forecast point to the general government deficit reaching -2.4% and -1.3% in 2012 and 2013, respectively, with real GDP growing by 1.6% in 2012 and 3.8% in 2013. The structural deficit is estimated at 0.8% and 0.5% of GDP in 2012 and 2013. The general government debt will increase over the forecast horizon to 11.7% of GDP in 2013, but is likely to decrease to about 10% in 2015.

In its recommendation of 10 July 2012 the Council delivered an opinion on the 2012 stability programme of Estonia pursuant to Regulation 1466/1997. It is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible in 2012-13, when GDP growth is expected to average around 2.4%. The objective of the budgetary strategy outlined in the programme is to ensure sustainable fiscal policy that supports balanced growth, by achieving a structural surplus while ensuring sufficient fiscal buffers and reducing the tax burden on labour. The programme aims at over-achieving MTO of a structural surplus as of 2013. Based on the (recalculated) structural budget balance, the rate of growth of government expenditure, taking into account discretionary revenue measures, will meet the expenditure benchmark of the Stability and Growth Pact by 2015. In parallel, the programme aims at reaching headline surpluses as of 2014.

In relation to its opinion on the 2012 stability programme, the Council recommended that Estonia needs to preserve a sound fiscal position by implementing budgetary plans as envisaged, ensuring achievement of the medium-term budgetary objective by 2013 at the latest, and compliance with the expenditure benchmark. In parallel, Estonia needs to complement the planned budget rule with more binding multi-annual expenditure rules within the medium-term budgetary framework, continue enhancing the efficiency of public spending and implement measures to increase tax compliance.

1.7. Hungary

In 2011, Hungary's GDP per capita in PPS amounted to 65.8% of the EU average. GDP grew by 1.6% in the same year, driven exclusively by the external balance. Domestic demand, and in particular investment, continued to decline for the third year in a row. In 2011, according to the spring 2012 notification, the headline general government balance reached a surplus of 4.3% on the back of substantial one-off revenues of close to 10% of GDP stemming from the transferred pension assets to the state. Thus, the headline deficit excluding all one-offs was around 5.25% of GDP.

In January 2012, also in view of the structural deterioration in both 2010 and 2011 and an expected deficit well above 3% of GDP in 2013 shown in the Commission services' 2011 Autumn Forecast, the Council decided that effective action had not been taken by Hungary. In March 2012 it proposed the suspension of a part of the Cohesion Fund 2013 commitments, accompanied with a new recommendation under the EDP.

According to the latest convergence programme submitted in April 2012, the targets for the general government deficit are 2.5% of GDP in 2012 and 2.2% of GDP in 2013, also to ensure the sustainable correction of the excessive deficit by the 2012 deadline. The deficit is planned to decrease further to 1.5% of GDP by 2015. The macroeconomic baseline scenario forecasts real GDP to stagnate in 2012, followed by a pick in a growth to 1.6% in 2013 and further expansion by 2.5% in 2014 and 2015, on the account of an increasingly positive contribution from domestic demand.

In the spring forecast the Commission services projected GDP to contract by 0.3% in 2012, and to recover to a modest growth rate of 1% in 2013. Based on new measures incorporated in the 2012 convergence programme, in a communication issued on 30 May the Commission found that Hungary had taken the necessary corrective action and that its budget deficit was expected to reach 2.5% of GDP in 2012 and to remain well below 3% of GDP, the EU's reference value for government deficits in 2013. Based on the Commission's proposal of adequate action, in its decision of 22 June 2012, the Council adopted a decision lifting the suspension of Cohesion Fund commitments for Hungary. It concurred with the Commission assessment that Hungary had taken effective action in response to the Council's recommendation of 13 March. Hungary's excessive deficit procedure nevertheless remains open.

In its recommendation of 10 July 2012 the Council delivered an opinion on the 2012 convergence programme of Hungary pursuant to Regulation 1466/1997. The Council was of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme was somewhat optimistic. The Hungarian authorities' growth projections for 2012 and 2013 were higher by around half a percentage point compared to the Commission services' 2012 spring forecast on the account of the more optimistic official assumptions regarding domestic demand, particularly in 2013. The objective of the budgetary strategy outlined in the programme is to ensure the sustainable correction of the excessive deficit by the 2012 deadline set by the Council in line with the Council Recommendation of March 2012. The official deficit targets and the planned fiscal efforts comply with the March 2012 Council recommendations based on Article 126(7). The programme confirms the MTO of 1.5% of GDP, which it plans to achieve by 2013. The MTO adequately reflects the requirements of the Stability and Growth Pact. Based on the (recalculated) structural budget balance, progress towards the MTO does not appear to be adequate in 2013 against the assessment of the Commission services' 2012 spring forecast, which takes into account the implementation risks related to selected saving measures and a less optimistic macroeconomic scenario.

The growth rate of government expenditure, taking into account discretionary revenue measures, is in line with the expenditure benchmark of the Stability and Growth Pact in 2013, but not in 2014 and in 2015. According to government plans, the public debt is continuously reduced throughout the programme period to below 73% of GDP in 2015, but will remain above the 60% of GDP reference value. Regarding the debt reduction benchmark, Hungary will be in transition period in 2013-2014 and the programme would ensure sufficient progress towards compliance with the benchmark. According to the programme, the debt reduction benchmark would be met at the end of the transition period, in 2015, and thereby should help to reduce the accumulated external and internal indebtedness.

In relation to its opinion on the 2012 update of the convergence programme, the Council recommended that Hungary correct the excessive deficit by 2012 in a durable manner, by implementing the 2012 budget and the subsequently approved consolidation measures, while reducing the reliance on one-off measures. Thereafter, it recommended specifying all structural measures necessary to ensure a durable correction of the excessive deficit and to make sufficient progress towards the MTO, including meeting the expenditure benchmark, and ensure sufficient progress towards compliance with the debt reduction benchmark. Also to help mitigate the accumulated macroeconomic imbalances, it asked Hungary to put the public debt ratio on a firm downward path.

In July 2012, the Hungarian authorities accepted new budgetary measures, which unless corrected, would lead to an increase in the fiscal deficit, mainly for 2013.

1.8. Latvia

In 2011, Latvia's GDP per capita in PPS amounted to 57.6% of the EU average. Latvia remained resilient to external shocks as GDP grew by 5.5% in 2011 pushed mainly by exports and investments. The past consolidation efforts and robust recovery supported public finances, with general government deficit of 3.5% of GDP in 2011, significantly better than expected and considerably below the deficit of 8.2% in 2010. The general government debt stood at 42.6% of GDP as of end-2011. The excessive deficit procedure for Latvia is currently in abeyance, with the deadline for correction of the excessive deficit situation in 2012. The three-year EU balance-of-payments support programme to Latvia, which was provided in co-operation with the IMF, World Bank, EBRD, several Member States and Norway, expired in January 2012. The authorities successfully returned to international financial markets already in June 2011, well ahead of the finalisation of the programme, and a second major international bond issuance took place in February 2012.

According to the latest convergence programme submitted in April 2012, the targets for the general government deficit are 2.1% of GDP in 2012, 1.4% in 2013, 0.8% in 2014 and 0.3% in 2015. The reduction in the headline deficit will be achieved through continuous restraint in compensation of employees (i.e. a nominal wage freeze in the public sector) and through further cuts in intermediate consumption. The programme projections are based on expectation of GDP growth of 2.0% in 2013, 3.7% in 2014 and 4.0% in both 2014 and 2015. According to the Commission services' 2012 spring forecast, the government deficit is projected to be 2.1% of GDP in 2012 (corresponding to expectations in the programme) and stay at the same level in 2013.

In its recommendation of 10 July 2012 the Council delivered an opinion on the 2012 convergence programme of Latvia pursuant to Regulation 1466/1997. The Council was of the opinion that the macroeconomic scenario underpinning the budgetary projections is cautious in 2012, taking into account the latest available information, and plausible in 2013. The objective of the budgetary strategy outlined in the programme is to correct an excessive deficit by 2012 and to approach the MTO by the end of the programme period. The planned headline deficit in 2012 complies with the deadline for correction of the excessive deficit established in Council Recommendation of 7 July 2009. For 2013, the programme targets a headline deficit of 1.4% of GDP, although the planned expenditure reduction is not yet fully supported by measures. However, tax changes from the second half of 2012 as adopted by Parliament on 24 May, which were not yet reflected in the programme scenario but acknowledged in the letter accompanying the submission of the 2012 convergence programme, represent a risk to the attainment of targets in 2013 and beyond. The general government debt ratio is below 60% of GDP, increasing from 42.6% of GDP in 2011 to 46.7% of GDP in 2014, falling to 38.9% in 2015.

In relation to its opinion on the 2012 update of the convergence programme, the Council recommended that Latvia should ensure planned progress towards the timely correction of the excessive deficit. To this end, it should implement the budget for the year 2012 as envisaged and achieve the fiscal effort specified in the Council recommendation under the Excessive Deficit Procedure; thereafter, implement a budgetary strategy, supported by sufficiently specified structural measures, for the year 2013 and beyond, to make sufficient progress towards the MTO, and to respect the expenditure benchmark; and, use better than expected cyclical revenue to reduce government debt.

1.9. Lithuania

In 2011, Lithuania's GDP per capita in PPS increased to 61.9% of the EU average, reflecting a significant pick-up in economic activity. Lithuania took full advantage of growing export markets as ongoing real wage declines and productivity improvements fostered competitiveness. As a result, net exports contributed positively to growth. Subsequently, corporate profits as well as employment increased and domestic demand took over as the main driver of economic growth. Despite the strong economic performance, unemployment remained high, averaging 15.4% over the year. Inflation (HICP) rose on the back of higher energy and food prices, reaching an annual average of 4.1%. In 2011 the general government deficit narrowed to 5.5% of GDP. The excessive deficit procedure for Lithuania is currently in abeyance, with the deadline for correction of the excessive deficit situation in 2012.

According to the latest convergence programme submitted in April 2012, the targets for the general government deficit are 3.0% of GDP in 2012 and 2.0% of GDP in 2013 before reaching a balanced budget in 2015. In the underlying macroeconomic scenario, real GDP growth is projected to stand at 2.5% in 2012, before accelerating to 3.7% in 2013 and growing on average by 3.8% in 2014 and 2015. According to the Commission services' 2012 spring forecast, the government deficit is projected to narrow to 3.2% of GDP in 2012 and 3.0% of GDP in 2013 under the customary assumption of no policy change. Real GDP is set to expand by 2.4% and 3.5% in 2012 and 2013 respectively.

In its recommendation of 10 July 2012 the Council delivered an opinion on the 2012 convergence programme of Lithuania pursuant to Regulation 1466/1997. In this opinion the Council concluded that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible. It is broadly in line with the Commission's 2012 spring forecast for 2012 and 2013. The objective of the budgetary strategy outlined in the programme is to correct the excessive deficit by 2012 as recommended by the Council and progressing towards the MTO thereafter. The programme confirms the previous MTO, i.e. a structural general government surplus of 0.5% of GDP, which adequately reflects the requirements of the Stability and Growth Pact, and outlines a consolidation of at least 1 percentage point per year, planning a balanced budget by 2015. While the budgetary plans are in line with a timely correction of the excessive deficit, the average annual fiscal effort in 2010-2012, based on the (recalculated) structural budget balance, is expected to be lower than 2.25% of GDP required by the Council in its recommendation of 16 February 2010. The planned annual progress towards the MTO in the years following the correction of the excessive deficit is slightly higher than 0.5% of GDP in structural terms, that is, the benchmark of the Stability and Growth Pact. The planned rate of growth of government expenditure, taking into account discretionary revenue measures, complies with the expenditure benchmark of the Stability and Growth Pact in 2013 and 2014, but not in 2015. General government debt is projected to remain below 60% of GDP over the programme period, increasing to nearly 41% of GDP in 2013, according to the Commission's 2012 spring forecast, while the convergence programme targets the debt to decrease to around 35% by 2015. The reform of budget planning and execution is progressing but the government has still to approve the proposed laws. These laws would improve accountability within the fiscal framework, by establishing an independent body, and to tighten rules on treasury reserves.

In relation to its opinion on the 2012 convergence programme, the Council recommended that Lithuania ensures planned progress towards the timely correction of the excessive deficit. To this end, Lithuania should fully implement the budget for the year 2012 and achieve the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. Thereafter, Lithuania should specify the measures necessary to ensure implementation of the budgetary strategy for the year 2013 and beyond as envisaged, ensuring an adequate structural adjustment effort to make sufficient progress towards the MTO, including meeting the expenditure benchmark, while minimising cuts in growth-enhancing expenditure. In that respect, Lithuania should review and consider increasing taxes least detrimental to growth, such as housing and environmental taxation, including introducing car taxation, while reinforcing tax compliance. Strengthen the fiscal framework, in particular by introducing enforceable and binding expenditure ceilings in the medium-term budgetary framework.

1.10. Malta

In 2011, Malta's GDP per capita in PPS amounted to 84.7% of the EU average, compared to 82.7% in the previous year. Real GDP growth in the first half of 2011 was relatively buoyant but moderated thereafter. In 2011 as a whole, real GDP expanded by 1.9%, compared to 1.4% in the euro area. The general government deficit was reported at 2.7% of GDP in 2011 and government gross debt at 72% of GDP. In January 2012, the Commission adopted a communication to the Council concluding that the Maltese authorities had taken effective action towards a timely and sustainable correction of the excessive deficit. In particular, the Maltese authorities adopted a 2012 budget including a series of measures to contain the deficit. The Commission concluded that no further steps in the excessive deficit procedure of Malta were needed. The Commission has not yet recommended to the Council to abrogate the decision on the existence of an excessive deficit, the deadline for correcting which was 2011. The situation will be re-evaluated later in the year, subject to complementary information, including the results of the EDP dialogue visit to Malta conducted by Eurostat in May 2012.[2]

According to the latest stability programme submitted in April 2012, Malta envisages to gradually reduce the deficit, to 0.3% of GDP in 2015, while the debt ratio is planned to start decreasing from 2012, reaching 65.3% of GDP in 2015. When looking at the entire programme period, the revenue and expenditure projections point to a consolidation effort that is primarily expenditure-based, even if the planned narrowing of the deficit in 2012 is to a large extent based on revenue-increasing measures, most of which are of a one-off nature. The macroeconomic scenario underlying the programme projects that real GDP growth will decelerate to 1.5% in 2012 before recovering gradually to 2.1% in 2015. According to the Commission services' 2012 spring forecast, the government deficit is projected to slightly decline to 2.6% of GDP in 2012 and, on a no-policy-change basis, to further increase to 2.9% of GDP in 2013. The debt ratio is projected to continue increasing and to reach 75.2% of GDP by 2013 on a no-policy-change basis. Real GDP growth is forecast to decelerate further in 2012, to 1.2%, due to subdued private consumption and stagnating business investment. In 2013, growth is projected to recover to 1.9%, supported by stronger employment and average wage growth, an improvement in business investment and a strengthening of exports.

In its recommendation of 10 July 2012 the Council delivered an opinion on the 2012 stability programme of Malta pursuant to Regulation 1466/1997. The Council was of the opinion that the macroeconomic scenario underpinning the budgetary projections is optimistic, especially in the outer years of the stability programme period when compared with potential growth as estimated by the Commission. The objective of the budgetary strategy outlined in the programme is to gradually reduce the deficit, to 0.3% of GDP in 2015, after the planned correction of the excessive deficit in 2011. The programme confirms the previous MTO of a balanced position in structural terms, which is to be achieved beyond the programme period. The MTO adequately reflects the requirements of the Stability and Growth Pact. There are risks that the deficit outcomes could be worse than targeted, stemming from (i) lower revenue given the slightly optimistic macroeconomic scenario; (ii) possible overruns in current primary expenditure; and (iii) the ongoing restructuring of the national airline (Air Malta) and financial situation of the energy provider (Enemalta). Based on the (recalculated) structural

[2] In accordance with Council Regulation (EC) No 479/2009 on the application of the Protocol on the EDP annexed to the Treaty establishing the European Community.

budget balance, annual progress towards the MTO is planned to be in line with the 0.5% of GDP benchmark in the Stability and Growth Pact. Using the Commission's identification of the one-offs included in the budgetary targets, average progress towards the MTO is slightly higher (¾% of GDP) but spread very unevenly, with no progress in 2012 followed by an effort of 1¼% in 2013. According to the information provided in the programme, the growth rate of government expenditure, taking into account discretionary revenue measures, would be in line with the expenditure benchmark of the Stability and Growth Pact throughout the programme period. The risks to the budgetary targets imply, however, that the average adjustment towards the MTO could be slower than appropriate. After peaking at 72% of GDP in 2011, the general government gross debt ratio is planned in the programme to start decreasing and to reach 65.3% of GDP in 2015 (still above the 60% of GDP reference value). According to the plans in the programme, Malta is making sufficient progress towards meeting the debt reduction benchmark of the Stability and Growth Pact at the end of the transition period (2015) but this assessment is subject to risks as the debt ratio could turn out higher than planned given the possibility of higher deficits and stock-flow adjustments. Malta's medium-term budgetary framework remains nonbinding, implying a relatively short fiscal planning horizon. The programme announces that the Maltese government is considering reforms to the annual budgetary procedure, including timelines, and introducing a fiscal rule embedded in the Constitution, including monitoring and corrective mechanisms, in line with recent changes to the euro area governance framework.

In relation to its opinion on the 2012 stability programme, the Council recommended that Malta reinforce the budgetary strategy in 2012 with additional permanent measures so as to ensure adequate progress towards the MTO and keep the deficit below 3% of GDP without recourse to one-offs; continue fiscal consolidation at an appropriate pace thereafter, so as to make sufficient progress towards the MTO, including meeting the expenditure benchmark, and towards compliance with the debt reduction benchmark, by specifying the concrete measures to back up the deficit targets from 2013, while standing ready to take additional measures in case of slippages; implement, by end-2012 at the latest, a binding, rule-based multi-annual fiscal framework; Malta should also increase tax compliance and fight tax evasion, and reduce incentives towards indebtedness in corporate taxation.

1.11. Poland

In 2011, Poland's GDP per capita in PPS amounted to 65.2% of the EU average. Real GDP is estimated to have grown by 4.3% in 2011. In the first half of the year, strong external demand fuelled manufacturing and private investments. In addition, EU co-financed infrastructure projects gave investment a further push. Private consumption picked up on the back of a strong labour market. However, with growing tensions in global financial markets in the second half of the year, consumer confidence deteriorated and private consumption lost steam. Moreover, a sharp fiscal consolidation, added to negative pressure on domestic demand. Despite a substantial decrease in general government deficit from 7.8% of GDP in 2010 to 5.1% of GDP in 2011, the general government debt increased by 1.5 pps of GDP to 56.3% of GDP. The excessive deficit procedure for Poland is currently in abeyance, with the deadline for correction of the excessive deficit situation in 2012.

According to the latest convergence programme submitted in April 2012, the targets for the general government deficit are 2.9% of GDP in 2012 and 2.2% of GDP in 2013. The Polish government is committed to reach the MTO in 2015, targeting a (recalculated) structural deficit of 0.7% of GDP for that year. The planned consolidation path is based on broadly conservative growth scenario assuming real GDP growth of 2.5% in 2012 and 2.9% in 2013. According to the Commission services' 2012 spring forecast, the government deficit is projected to reach 3% of GDP in 2012 and 2.5% of GDP in 2013, based on real GDP growing by 2.7% in 2012 and 2.6% in 2013. In September 2012 the Polish government published its draft budget for 2013, which assumes real GDP growth of 2.5% in 2012 and 2.2% in 2013. Based on revised figures, the government announced that its deficit might reach 3.5% of GDP, while for 2013 the deficit is expected to be higher than the 2.2% of GDP in the convergence programme.

In its recommendation of 10 July 2012 the Council delivered an opinion on the 2012 convergence programme of Poland pursuant to Regulation 1466/1997. The Council was of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible and is in line with the Commission's 2012 spring forecast. The objective of the budgetary strategy outlined in the programme is to correct the excessive deficit by 2012 and reach the MTO by 2015. The programme confirms the MTO of a deficit of 1% of GDP, which adequately reflects the requirements of the Stability and Growth Pact. The planned correction of the deficit is in line with the deadline set by the Council and the planned fiscal effort complies with the recommendation under the Excessive Deficit Procedure. Based on the (recalculated) structural deficit, the planned annual progress towards the MTO is higher than 0.5% of GDP (in structural terms). The growth rate of government expenditure, taking into account discretionary revenue measures, is in line with the benchmark of the Stability and Growth Pact over entire programme period, but exceeds the expenditure benchmark by a small margin in 2013, according to the Commission's 2012 spring forecast. Sufficient progress towards the MTO may require additional efforts as it predominantly relies on sizeable cuts in public investment expenditure and is not sufficiently supported by detailed measures in the outer years of the programme. General government debt is projected to remain below 60% of GDP in Poland over the programme period. The national authorities forecast it to decrease gradually from 56.3% of GDP in 2011 to 49.7% of GDP in 2015, whereas the Commission, taking account of possible risks to the consolidation plans, expects the improvement to be slower.

In relation to its opinion on the 2012 update of the convergence programme, the Council recommended that Poland ensures planned progress towards the correction of the excessive deficit. To this end, Poland should implement the budget for the year 2012 and achieve the structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure. Thereafter, Poland should specify the measures necessary to ensure implementation of the budgetary strategy for the year 2013 and beyond as envisaged, ensuring an adequate structural adjustment effort to make sufficient progress towards the MTO, including meeting the expenditure benchmark, and minimise cuts in growth-enhancing expenditure in the future and improve tax compliance.

1.12. Slovakia

In 2011, GDP per capita in PPS in Slovakia amounted to 73.4% of the EU average. Economic activity remained strong, with real GDP growing at 3.3% driven by net exports. With the government slashing its capital expenditure, the solid performance of investment in 2011 was driven mainly by the private sector, notably in the automotive sector. Private consumption, on the other hand, stagnated, as gross disposable income declined in real terms in 2011 and unemployment remained high for a third consecutive year. After remaining below 1% for 2009 and 2010, inflation spiked at 4.1% in 2011, driven largely by energy and commodity prices and by the increase in the standard VAT rate and in excise taxes introduced in January 2011. With regard to public finances, the headline deficit was significantly reduced to 4.8% of GDP from 7.7% of GDP a year earlier. General government debt stood at 43.3% of GDP. The excessive deficit procedure for Slovakia is currently in abeyance, with the deadline for correction of the excessive deficit situation in 2013.

According to the latest stability programme submitted in April 2012, the targets for the general government deficit are 4.6% of GDP in 2012, 2.9% of GDP in 2013, 2.3% of GDP in 2014 and 1.7% of GDP in 2015. The macroeconomic scenario underlying the programme forecasts real GDP growth of 1.1% in 2012, picking up to 2.7% in 2013 and 3.6% in 2014. The Commission services' 2012 spring forecast projects the deficit at 4.7% of GDP in 2012. In the absence of policy measures, the deficit is forecast to increase slightly to 4.9% of GDP in 2013. Real GDP is projected to grow by 1.8% in 2012 and 2.9% in 2013. The public debt-to-GDP ratio is expected to reach 49.7% in 2012 and 53.5% of GDP in 2013.

In its recommendation of 10 July 2012 the Council delivered an opinion on the 2012 stability programme of Slovakia pursuant to Regulation 1466/1997. The Council was of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible. It is broadly in line with the Commission's 2012 spring forecast, although the latter assumes somewhat higher real GDP growth in 2012. The stated objective of the budgetary strategy outlined in the programme is to ensure the long-term sustainability of public finances. The intermediary steps defined to reach this are a rigorous implementation of the 2012 budget and a reduction of the headline deficit below 3% of GDP in 2013, the deadline for correction of the excessive deficit set by the Council. The achievement of the headline deficit target in 2013 (below 3%), however, may fall short of plans. The programme has changed the MTO from a close-to-balance budget to a structural deficit of 0.5% of GDP, which is not foreseen to be achieved within the programme period. Based on the (recalculated) structural budget balance**,** the average annual fiscal effort in 2010-2013 amounts to 1.3% of GDP – well above the required value recommended by the Council – whereby the residual fiscal effort is somewhat back loaded to 2013. The target for 2013 is subject to risks, as suggested revenue measures may fall short of the objective; simultaneous implementation of all small-scale measures can be difficult to implement; in light of upwards revisions of the deficit targets that took place in the past. In addition, further across-board expenditure cuts may prove unsustainable in the medium term. In 2014 and 2015, the average fiscal effort stands at 0.3% of GDP annually, which is below the required adjustment of 0.5% of GDP for countries which have not yet reached the MTO. Nevertheless, according to the programme the growth rate of government expenditure, taking into account discretionary revenue measures, is in line with the expenditure benchmark of the Stability and Growth Pact in the outer years of the programme. Government debt would remain well below 60% of GDP. While Slovakia passed legislation establishing the Fiscal Council, so far it has not been set up and the legislation on expenditure ceilings has not yet been adopted.

In relation to its opinion on the 2012 update of the stability programme, the Council recommended that Slovakia should take action within the period 2012-2013 to take additional measures in 2012 and specify the necessary measures in 2013, to correct the excessive deficit in a sustainable manner and ensure the structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure. Slovakia should implement targeted spending cuts, while safeguarding growth-enhancing expenditure, and step up efforts to improve the efficiency of public spending. Thereafter, it ensures an adequate structural adjustment effort to make sufficient progress towards the medium-term objective, including meeting the expenditure benchmark, and to accelerate the setting up of the Fiscal Council and adopt rules on expenditure ceilings.

1.13. Slovenia

In 2011, Slovenia's GDP per capita in PPS amounted to 83.7% of the EU average. Real GDP increased by 0.6%. Private consumption increased by 0.9% in real terms and net exports made a large positive contribution to real GDP growth. The on-going sharp retrenchment in investment, with construction output declining by a quarter in 2011, acted as the main drag on growth. The general government deficit was 6.4% of GDP in 2011. Without deficit-increasing one-offs from capital support operations, the deficit would have been 5.4% of GDP. Government gross debt increased from some 39% in 2010 to 47.6% of GDP in 2011. The excessive deficit procedure for Slovenia is currently in abeyance, with the deadline for correction of the excessive deficit situation in 2013.

According to the latest stability programme submitted in April 2011, the targets for the general government deficit are 3.5%, 2.5%, 1.5% and 0.4% of GDP over 2012-2015. However, the final version of the austerity package, which was approved by Parliament after the submission of the stability programme, increases these deficit targets by 0.1 pp. of GDP in each year. The consolidation effort is predominantly expenditure-based, affecting all categories of primary expenditure. The macroeconomic scenario underlying the programme projects that real GDP growth will rebound and strengthen gradually, from -0.9% in 2012 to 2.2% in 2015, driven by improving investment and private consumption prospects. According to the Commission services 2012 spring forecast, which reflected the draft version of the austerity package, the government deficit is projected to decline to 4.3% of GDP in 2012 and 3.8% of GDP in 2013, while the debt ratio is projected to grow to some 58% of GDP in 2013. Real GDP is forecast to contract by 1.4% in 2012 before rebounding by 0.7% in 2013.

In its recommendation of 10 July 2012 the Council delivered an opinion on the 2012 stability programme of Slovenia pursuant to Regulation 1466/1997. The Council was of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is optimistic when compared with the Commission services' 2012 spring forecast. The objective of the budgetary strategy outlined in the programme is to bring the general government deficit below 3% of GDP in 2013, the deadline set by the Council, and to pursue further deficit reduction thereafter so as to broadly achieve Slovenia's MTO by 2015. The MTO is defined as a balanced position in structural terms, unchanged from the previous programme, but cannot be regarded as appropriate under the provisions of the Stability and Growth Pact because, based on current policies and projections, it does not ensure sufficiently rapid progress towards long-term sustainability. There are risks that the deficit outcomes could be worse than targeted, due to (i) a lack of specification of the measures foreseen, in particular for the period 2014-15; (ii) a track record of primary current expenditure overruns; (iii) lower revenue given the relatively optimistic macroeconomic scenario and uncertainty about the impact of the recently decided tax measures; and (iv) possible additional capital support operations and calling of guarantees. Based on the (recalculated) structural balance, the average annual fiscal effort over the period 2010-2013, is planned to be almost 1% of GDP, slightly above the one recommended by the Council. However, the Commission's 2012 spring forecast implies that an additional effort will have to be made in 2013 to respect the recommendation over the entire correction period. After the planned correction of the excessive deficit, the annual pace of progress towards the MTO according to the programme is in line with the 0.5% benchmark set in the Stability and Growth Pact in 2015 but below it in

2014, while the rate of growth of government expenditure, taking into account discretionary revenue measures, is in line with the expenditure benchmark of the Stability and Growth Pact in both years, so overall the programme plans a broadly appropriate adjustment path towards the MTO. Taking account of the risks mentioned above, the progress towards the MTO could be slower than appropriate in both years. From around 48% of GDP in 2011, general government gross debt is projected in the programme to peak by 2013 at 53% (thus remaining below the 60% of GDP reference value) before falling slightly by the end of the programme period. The debt projections are subject to upward risks from the possibility of higher deficits mentioned above and higher stock-flow adjustments. Slovenia's medium-term budgetary framework and expenditure rule remain insufficiently binding and insufficiently focussed on achieving the MTO and securing long-term sustainability.

In relation to its opinion on the 2012 stability programme, the Council recommended that Slovenia implement the 2012 budget, and reinforce the budgetary strategy for 2013 with sufficiently specified structural measures, standing ready to take additional measures so as to ensure a correction of the excessive deficit in a sustainable manner by 2013 and the achievement of the structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure; thereafter, Slovenia should ensure an adequate structural adjustment effort to make sufficient progress towards an appropriate medium-term objective for the budgetary position, including meeting the expenditure benchmark, and strengthen the medium-term budgetary framework, including the expenditure rule, by making it more binding and transparent.

1.14. Bulgaria

In 2011, Bulgaria's GDP per capita in PPS amounted to 44.7% of the EU average. Following the economic crisis, the Bulgarian economy expanded slowly over 2010-2011. As in other converging EU economies, which had undergone a period of economic overheating and a build-up of imbalances, the growth pattern in the recovery over 2010-11 was largely driven by exports, while domestic demand remained stagnant. Annual GDP growth reached 1.7% in 2011, with a decelerating trend within the year. The recovery is mainly restrained by the weaknesses of the labour market, the continued deleveraging of the corporate sector and a downsizing in the construction sector. Additionally, given the regional economic uncertainties, capital inflows and FDI have stabilised at lower levels and have not given a notable boost to growth, unlike in the past decade. On the positive side, the financial sector has remained stable, providing a modest growth in private sector credit in 2011. The economy also benefits from relatively strong public finances, which do not face major adjustment needs in the medium term. Budgetary discipline led to a further improvement in the fiscal position in 2011. The budget deficit (which had peaked at 4.3% of GDP in 2009) narrowed from 3.1% of GDP in 2010 to 2.1% in 2011. The general government debt ratio amounted to 16.3% of GDP in 2011. Fiscal consolidation is set to continue in 2012-13, although at a slower pace. On 22 June 2012, on a recommendation from the Commission, the Council decided that the excessive deficit situation in Bulgaria has been corrected.

According to the latest convergence programme submitted in April 2012, the targets for the general government deficit are 1.6% in 2012, 1.3% in 2013 and a further improvement to reach a balanced position by 2015. The general government debt ratio is projected to edge up to 18.4% of GDP in 2013. According to the Commission services' 2012 spring forecast, the government deficit is projected to be somewhat higher at 1.9% of GDP in 2012 and 1.7% of GDP in 2013, in line with a weaker GDP growth forecast.

In its recommendation of 10 July 2012 the Council delivered an opinion on the convergence programme of Bulgaria pursuant to Regulation 1466/1997. The Council was of the opinion that compared with the Commission´s 2012 spring forecast the macroeconomic scenario underpinning the budgetary projections in the programme is optimistic for the 2012-2013 period, when annual growth is expected to reach 1.4% in 2012 and 2.5% in 2013. The Commission's 2012 spring forecast foresees a GDP growth of 0.5% in 2012 and 1.9% in 2013. After the correction of the excessive deficit in 2011, the objective of the budgetary strategy outlined in the programme is to achieve a budgetary position which is close to balance, both in terms of the structural and headline budget balances, by the end of the programme period. The MTO, defined in structural terms, has been marginally revised from a deficit of 0.6% of GDP to a deficit of 0.5% of GDP. The new MTO adequately reflects the requirements of the Stability and Growth Pact. Based on the (recalculated) structural deficit, Bulgaria plans to achieve its MTO over the programme period. In 2012-2014, the growth rate of government expenditure, taking into account discretionary revenue measures, would respect the expenditure benchmark of the Stability and Growth Pact, yet breach it in 2015. Planned fiscal consolidation faces a number of risks stemming from (i) lower revenue given the optimistic macroeconomic scenario as well as less tax-rich underlying growth structure of the economy and (ii) inefficiencies in the public sector, particularly with respect to arrears in healthcare, which may lead to considerable expenditure pressures. There is considerable scope for improvement in tax compliance and advancing in this area would allow Bulgaria to support higher growth enhancing expenditures. A requirement to keep the budget deficit below 2% and limiting government expenditure to 40% of GDP was adopted as an amendment to the Organic Budget Law, thus strengthening the binding nature of the fiscal framework and improving the predictability of budgetary planning. However, challenges remain with respect to further improving the contents of the medium-term budgetary framework and strengthening the reporting on accrual basis including through improving the quality and timeliness of reporting by State Owned Enterprises and sub-national governments.

In relation to its opinion on the 2012 update of the convergence programme, the Council recommended that Bulgaria continues with sound fiscal policies to achieve the medium-term budgetary objective by 2012. To this end, the Council recommended to implement the budgetary strategy as envisaged, to ensure compliance with the expenditure benchmark, and to stand ready to take additional measures in case risks to the budgetary scenario materialise. At the same time, Bulgaria was recommended to strengthen efforts to enhance the quality of public spending, particularly in the education and health sectors and implement a comprehensive tax-compliance strategy to further improve tax revenue and address the shadow economy. Bulgaria was also recommended to further improve the contents of the medium-term budgetary framework and the quality of the reporting system.

1.15. Romania

In 2011, Romania’s GDP per capita in PPS amounted to 49% of the EU average. After two years of recession with cumulated GDP contraction of more than 8%, growth resumed in 2011 with the economy growing by 2.5%. Growth was mainly driven by a robust increase in industrial output and an exceptional agricultural harvest. On the demand side, the main drivers of growth were gross fixed capital formation and, in the second half of the year, a modest recovery in private consumption. The budget deficit decreased from 6.8% in 2010 to 5.2% of GDP in 2011. The deficit for 2011 would have been significantly below 5% without the inclusion of a substantial one-off item, worth 1.1% of GDP, due to payment obligations related to court decisions which became definitive in 2011. Public debt in 2011 increased to

33.3% from 30.5% in 2010. The excessive deficit procedure for Romania is currently in abeyance, with the deadline for correction of the excessive deficit situation in 2012. Following a request by Romania on 17 February 2011, a precautionary Economic Adjustment Programme was agreed by the European Council on 12 May 2011 and by the IMF board on 25 March 2011. The programme covers a two-year period until 31 March 2013. Its financial package covers up to EUR 4.9 billion, of which EUR 1.4 billion from the EU and EUR 3.5 billion from the IMF. Both the EU and the IMF programme are treated as precautionary and no disbursements have taken place so far. The programme focuses on structural reforms to support the re-launch of economic growth, while consolidating fiscal and financial Stability and also has explicit targets for absorption of EU funds.

According to the latest convergence programme submitted in May 2012, the targets for the general government deficit are: 2.8% in 2012, 2.2% in 2013, 1.2% of GDP in 2014 and 0.9% of GDP in 2015. The underlying macroeconomic scenario envisages a slowdown in GDP growth in 2012 to 1.7%, rising to 3.1% in 2013, 3.6%% in 2014 and 3.9% in 2015. According to the Commission services' 2012 spring forecast, the government deficit is projected to decrease to 2.8% of GDP in 2012 and to 2.2% in 2013, while public debt is projected to be 34.6% of GDP in both 2012 and 2013. The GDP growth is forecast at 1.4% in 2012 and 2.9% in 2013. For 2012-2013, the growth forecast of the convergence programme is broadly in line with the Commission services' forecast, while beyond this horizon, GDP growth is above the potential GDP estimated by the Commission services. The implementation of the conditions in the EU balance of payments assistance programme in Romania should help in achieving the budgetary targets.

In its recommendation of 10 July 2012 the Council delivered an opinion on the 2012 convergence programme of Romania pursuant to Regulation 1466/1997. The Council was of the opinion that that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible. The objective of the budgetary strategy outlined in the programme is to reach a budget deficit below 3% of GDP in 2012, in line with the Council recommendations given to Romania under the Excessive Deficit Procedure. Thereafter, it aims at achieving an MTO defined as a deficit of 0.7% of GDP in structural terms. The MTO adequately reflects the requirements of the Stability and Growth Pact. Following the planned correction of the excessive deficit in 2012, the deficit is expected to decrease further to 2.2% of GDP in 2013, to 1.2% of GDP in 2014 and 0.9% of GDP in 2015. Based on the (recalculated) structural budget balance, this implies an improvement in the deficit by 1.5% in 2012, 0.5% in 2013 and 0.7% in 2014, in line with the 0.5% of GDP benchmark of the Stability and Growth Pact. The growth rate of government expenditure is in line with the expenditure benchmark of the Stability and Growth Pact over the 2012-2015 period. The programme foresees the achievement of the MTO in 2014. The main risks to the budgetary targets are the arrears of state owned enterprises, as well as potential re-accumulation of arrears at local government level and in the health sector, even if some measures have been taken in the health sector. As regards public debt, it was below 34% of GDP by end 2011 thus remaining substantially below 60% of GDP.

On 10 July 2012 the Council recommended Romania to implement the measures laid down in Decision 2009/459/EC, as amended by Decision 2010/183/EU, together with the measures laid down in Decision 2011/288/EU and further specified in the Memorandum of Understanding of 23 June 2009 and its subsequent supplements, and in the Memorandum of Understanding of 29 June 2011 and its subsequent supplements.

2. THE IMPLEMENTATION OF THE 2000-2006 PROJECTS IN THE BENEFICIARY MEMBER STATES

2.1. Greece

Environment

In the environment sector, 92 projects have been adopted. Most of the projects closed in 2011 concerned solid waste and waste water treatment plans. The 10 environmental projects closed during 2011 are operational and have achieved their objectives. Their objective was to serve the regional needs in the above sectors and comply with the *EU acquis* requirements. It is important to note that for the waste management projects a 5% net financial correction was applied due to the non-respect of the specific conditions of the Commission's decisions linked to the diminution of the biodegradable waste. One project relating to nature protection had to be cancelled as there was no progress at all.

Transport

In the transport sector, 30 projects (+1 mixed project relating the Metro of Athens) have been adopted. In 2011 there were 13 projects under implementation in 2011 and there is a stable progress of the physical and financial implementation of the projects, with higher absorption presented in the road projects while the rail and the port projects are still lagging behind. The 2 projects closed in 2011 concerned motorways construction and their objective was to complete parts of infrastructures related to TEN-T motorways.

2.2. Spain

The year 2011 was confined to physical and financial monitoring of ongoing projects leading, in particular, to interim payments based on their degree of advancement, to the closure of completed projects and to adjustments of the terms of assistance in relation to the actual situation on the ground via changes in the Commission decisions.

A total of 44 projects were closed in 2011. Half of the closed projects concerned the environmental sector; the remaining 22 were related to the transport sector. A reduction in the pace of closures took place in 2011 compared to 2010. The closure process remains not as fast as desired and complex mainly due to the problem concerning the transposition of EU Directives on public procurement into Spanish law, especially with regard to changes in the contracts being implemented by negotiated procedure. The closures completed in 2011 were significantly more than in 2009 and 2008 when only 34 and 18 closures were approved.

Many projects are likely to present problems of irregularities related to non-compliance with the said Directives, but they have to be completed pursuant to section H of Annex II to Regulation (EC) No 1164/1994. The organisation and management of such a procedure involves an extremely heavy burden, both for the Member State and for the services of the Commission. In 2011 two hearings took place, one in March (10 projects) and in July (5 projects). In 2010, the Commission organised four hearings (March, June, July and November) dealing with a total of 30 projects. In 2009 the hearings organised only dealt with 3 projects.

As regards payments (interim and final balance), a total of 84 requests for payments have been implemented for an amount equivalent to EUR 400.1 million. Compared to the year 2010, this represents a decrease in terms of payment claims (128 in 2010) and a decrease in terms of amounts paid (EUR 609 million in 2010).

In 2011, the Commission experienced difficulties in obtaining all the necessary information from the Spanish authorities to complete the closure of some projects. In particular, the technical reports required when contracts are modified and information on contracts below the thresholds of the procurement directives. This had an effect on the rate of closure. As a result, in September the Commission sent an EU pilot letter informing Spain of the first steps of an infringement procedure for the lack of sincere co-operation under Article 4(3) of the Treaty.

Environment

Regarding changes in the conditions of Commission's decisions, in 2011, these changes affect the date of completion of works, often accompanied by - usually minor - changes to the physical subject of the projects. The changes have had no impact on either the total eligible costs of projects or Community assistance. Also, in terms of number of amendments, we are seeing a reduction which is due to the close end of projects for most of decisions.

Transport

During 2011, 18 High Speed Railway projects were closed, mainly projects on the lines between Madrid-Barcelona and the French border and the line Madrid- Castilla La Mancha-Valencia-Murcia, with a total CF aid allocation (for the 18 projects) of EUR 1,456 million.

2.3. Portugal

Environment

The projects under implementation help to promote, develop and complete the basic environment infrastructure as well as to ensure the conditions for sustainable development, environmental protection and management of natural resources. These projects relate to the priority sectors of ‘Water Supply’, ‘Sewerage and Wastewater Treatment’ and ‘Urban Waste Management’, in line with the reference framework.

During 2011, 19 amending decisions were adopted to make general adjustments to the final specifications of projects, mostly in order to include new additional elements and/or to revise others, and to extend the final date of eligibility.

In 2011, 6 environmental projects were closed: ‘Despoluição das Bacias do Rio Lis e Ribeira de Seiça’, ‘Sistema Multisectorial da Raia, Zêzere e Nabão, 1ª fase’, ‘Saneamento do Concelho de Braga’, ‘Multisectorial tras-os-Montes e Alto Douro, 1ª fase’, ‘RUB Cova da Beira/Valnor’ and ‘Estudos, Projectos e Assessorias, IPE’.

As at December 2011, 29 environmental projects were already in the process of closure. From a financial point of view the most significant projects are ‘Tratamento de Resíduos da Madeira’ (with a total Fund contribution of EUR 72 million), ‘Abastecimento de Água e Saneamento de Trás-os-Montes e Alto Douro – 3ª Fase’ (EUR 50 millions), ‘Sistema Multimunicipal de Aguas residuais da Peninsula de Setubal’ (EUR 47 million), ‘Multisectorial Raia, Zêzere, Nabão- 1a fase’ (EUR 45 millions), and ‘Abastecimento e Saneamento de Águas de Trás-os Montes e Alto Douro – Fase 2’ (EUR 43 million).

Transport

The projects being implemented contribute to the development of the Trans-European Transport Network and enhance multimodal articulation between the various means of transport in place, in line with the objectives of the reference framework.

During the year, 2 amending decisions were adopted for the same general reasons of adjusting the description of the project and extending the final date of eligibility. One of the projects has been extended to 31 December 2012 ‘Metro de Lisboa – Ligação GIL/Aeroporto’.

In 2011, 4 transport projects were fully closed, ‘Modernisation de la ligne Algarve II’, ‘Linha do Algarve, Coina/Pinhal Novo’, ‘Linha do Norte, Entrecampos/Chelas’ and ‘Terminal Marítimo de Passageiros – Ponta Delgada’.

10 transport projects were at the closure procedure stage in December 2011; from a financial point of view the most relevant ones are ‘Linha do Norte – Vila Franca/Vale de Santarém’ (with a total Fund contribution of EUR 151 million), ‘Linha do Norte – Entroncamento/Albergaria’ (EUR 114 million) and ‘Metro de Lisboa, Ligação à RTE’ (EUR 107 million).

The other 2 projects arrived at the end of the eligibility date on 31 December 2011 (Porto do Funchal) and to the end of 2012 (Metro de Lisboa – GIL/Aeroporto).

Technical Assistance

1 technical assistance decision is at the procedure closure stage at the end of 2011. The other 2 projects reached the end of eligibility in December 2011.

2.4. Cyprus

The Cohesion Fund for Cyprus amounts to approximately EUR 54 million Community contribution. Two projects are co-financed by the Cohesion Fund: one transport project (upgrade of Limassol motorway) and one environmental project (solid waste management covering the regions of Larnaka-Ammochostos).

Both Cohesion Fund projects were completed within the eligibility date set in the decisions. The environmental project was closed in 2011 and the transport project is in the closure process.

2.5. Czech Republic

Environment

The implementation of the Cohesion Fund projects in the environment sector was completed satisfactorily by the end of 2011 (besides 1 project which was announced to be cancelled). 86% of the committed amounts have already been paid by the Commission.

Regarding the closure procedure, out of the 38 projects approved in the 2000-2006 programming period, 15 were closed (1 in 2011), 5 were in the closure procedure since 2009 and 2010, and closure procedures have been initiated for 15 other projects in 2011.

In 2011, the Commission dealt with no requests to amend the Commission decision in the sector of environment.

Transport

In the transport sector, the implementation of all projects was completed by the end of 2011. 95% of the committed amounts have already been paid by the Commission.

In 2011, the closure procedure was launched for 2 projects. So far, 10 out of the 13 approved projects have been closed (1 in 2011).

In 2011, the Commission dealt with no requests to amend the Commission decision in the sector of transport.

Technical Assistance

Regarding the technical assistance projects, the implementation of all projects was completed by the end of 2011 (2 in the field of transport, 2 in the field of environment and 2 general technical assistance). 86% of the committed amounts have already been paid by the Commission.

4 out of the 6 projects were closed, 1 of which in 2011. In 2011, the Commission dealt with no requests to amend the Commission decision regarding the technical assistance projects.

2.6. Estonia

Environment

The Commission has issued financial decisions for 21 environmental projects under the Cohesion Fund (4 of them are technical assistance projects). In environment, Cohesion Fund projects mainly concentrated on the water sector. Estonia's larger urban areas – Tartu, Narva, Kohtla-Järve, Pärnu etc were able to carry out separate projects while smaller settlements were grouped together according to the river or sub-river basin water management plans. In waste management the Cohesion Fund supported closure of one hazardous waste landfill and the construction of a modern landfill for the Western part of Estonia.

By the end of 2011, activities of all projects were finished on the ground.

Cohesion Fund projects were subject to heavy cost increases in 2006 – 2007. The situation returned back to normal since 2008 and construction prices have been going down during the economic crises. The changing conditions have required that some projects had to be modified by the Commission. These proposals for amendment are being analyzed in order to ensure the delivery of working projects that continue to fulfil the initial objectives. In 2011, the Commission approved 3 amending decisions (increasing the ceiling of cumulative payments to the project to 90%, extending the final date of eligibility and introducing adjustments to the physical scope resulted mainly from the cost increase).

For environmental projects, 7 projects remain to be closed.

Transport

The Commission has issued financial decisions for 15 transport projects under the Cohesion Fund (5 of which are technical assistance projects). Already by the end of 2010, all projects were completed on ground. For a project concerning the extension of Muuga harbour, cost savings were registered and the managing authority proposed to carry out additional works to use these savings for the benefit of the project during 2011. In relation to this, the amended Commission decision has been adopted also in 2011.

All Estonian TEN-T roads have been systematically improved with Cohesion Fund resources. At the initial stage, projects comprised mainly improvements to existing roads that were in very bad conditions when ISPA initially became available. At a later stage, work concentrated on the full renewal of sections and junctions considered to be bottlenecks or black spots in terms of safety. No completely new roads or motorway sections have been built. In addition to roads, Tallinn Airport passenger terminal and surrounding area have been completely renovated and extended, allowing the airport to cope with increased passenger numbers. Also, a major seaport has been extended with the assistance of the Cohesion Fund.

Technical assistance has helped preparing transport infrastructure projects for implementation in the new programming period. This is demonstrated by good progress in transport sector investments from the 2007 – 2013 period resources.

For transport sector projects, 2 projects remain to be closed and 1 general technical assistance project ‘Support for Cohesion Fund Management Auhtority’ will be closed.

2.7. Hungary

There are 47 Cohesion Fund projects in Hungary: 31 environmental projects including (6 technical assistance projects) and 16 transport projects (including 7 technical assistance projects). 13 projects were closed at the end of 2011.

Of the 34 projects to be closed, 26 projects have a final eligibility deadline of December 2010, for 6 projects the deadline was December 2011, and for 2 projects the deadline will be December 2012.

Total payments made in 2011 amounted to EUR 57.45 million (EUR 6.66 million final payment, and EUR 50.78 million interim payments). The payments made in 2011 only concerned environmental projects.

Six amending decisions were adopted in 2011 and these mainly related to the extension of the eligibility period and inclusion of additional project elements without modification of grant (cost savings).

The implementation of Cohesion Fund projects is lagging behind. In particular, within the environment sector not all projects have yet reached 80% of payments, the average ratio of payment to commitments is only 73%, including advance payments.

2.8. Latvia

Environment

The Commission has issued 26 Cohesion Fund decisions for environmental projects (including 4 technical assistance projects). In total, out of 26 projects by the end of 2011, 11 projects were closed and 15 closure files were pending with the Commission.

For 5 of the pending closure files, financial corrections were proposed due to wrongful award of supplementary contracts. On 1 July 2010, a hearing was held for 4 projects, but no agreement was reached. In March 2012, the Commission services issued the final position letter, and in May 2012 the Member State accepted the proposed corrections.

In 2011, the Commission approved 2 amending decisions mainly increasing the ceiling of cumulative payments to the project to 90% and introducing some minor adjustments to the physical scope.

Transport

The Commission has issued 18 Cohesion Fund decisions for transport projects (including 4 technical assistance projects). In total, by the end of 2011, 10 projects were closed, 7 closure files were pending with the Commission and 1 project was ongoing.

In 2011, the Commission approved 3 amending decisions mainly concerning extension of the final date of eligibility to 31 December 2010, increasing the ceiling of cumulative payments to the project to 90% and introducing some minor adjustments to the physical scope.

Technical Assistance

In addition to the sectoral assistance, co-financing has been granted to 2 projects for introduction of the Extended Decentralised implementation system for management of ISPA and later for strengthening the administrative capacity of Cohesion Fund management in Latvia. By the end of 2011, 1 of the projects was closed and 1 pending with the Commission.

In 2011, the Commission approved 1 amending decision by including new components to facilitate achievement of the project's objectives.

2.9. Lithuania

Environment

29 environmental projects were adopted under the Cohesion Fund (and ex-ISPA) for the period 2000-2006, of which 16 relate to the drinking and waste water sector, 11 relate to the solid waste sector, and 2 are for technical assistance.

By the end of 2011, 2 waste water projects and 1 solid waste project have been closed. Currently 13 projects are in the closure process with the Commission.

10 amending decisions were adopted in 2011 and 5 other modification requests were still under treatment at the end of 2011. The amendments mainly concern reduction of scope of the project, adjustment of physical monitoring indicators, extension of the final date of eligibility

to 31 December 2011 and increase, up to 90%, of the ceiling for advance and interim payments. The 5 requests of modification still to be treated in 2012 are intended for reduction in scope of the projects and the corresponding adjustment of physical monitoring indicators and objectives.

Two specific problems identified in the environment sector have been especially scrutinised and discussed with the national authorities:

1) A majority of projects in water and waste water sector showed only partial achievement of project objectives related to the connection rate of new consumers to the water supply and waste water collection networks

2) A number of projects were affected by cost overruns due to unforeseen inflation, and Lithuania requested for a reduction of projects' scope

For both problems, after detailed analysis of the situation of each project, the Commission has adopted and notified the Member State of its position either to accept the situation as justified or to request additional efforts to improve it.

Transport

20 transport projects were adopted under the Cohesion Fund (and ex-ISPA) for the 2000-2006 period; 11 of these projects refer to the road sector, 6 refer to the railway sector, and 3 are for technical assistance.

Prior to year 2011, 9 road projects and 1 technical assistance projects were closed. At the end of 2011, closure procedures were underway for 8 projects.

1 amending decisions was adopted in 2011 for extension of the final date of eligibility and increase, up to 90%, of the ceiling for advance and interim payments. Another request for amendment, related to formal aspects of the existing decision, was rejected by the Commission.

Technical Assistance

In addition to the sectoral assistance, co-financing has been granted to 2 projects aimed at strengthening the administrative capacity of Cohesion Fund management in Lithuania. One project was closed before 2011 and the other project's final date of eligibility was 31 December 2011. This project related to the monitoring of the Cohesion Fund projects, verification of the closure documents and ex-ante evaluation of all Cohesion Fund projects of the 2000-2006 programming period.

2.10. Malta

Environment

The project 'Upgrading of Sant' Antnin waste treatment facilities' covers the construction of a mechanical treatment plant for the pre-treatment of household waste, a material recycling facility, and an anaerobic digestion plant for the treatment of biodegradable waste, including a reverse osmosis plant providing water treatment. The main outcome is the reduction of the negative environmental impact of the waste cycle, and notably the reduction of the amount of landfilled waste, which is of utmost importance for the Malta main island due to its very high population density (1,500 inhabitant/km²).

An amending Commission Decision extending the final date of eligibility of the project until 31 December 2011 was adopted on 11 February 2011.

The project was physically and financially completed in the course of 2011. The documents required for the closure of the project are to be submitted to the Commission by the end of June 2012.

Transport

The project 'Restoration and upgrading of sections of TEN-T' consists of the upgrading of three lots of the TEN-T network in Malta and Gozo (St. Paul's Bay by-pass, Civil Aviation Avenue in Luqa and Mġarr Road in Għajnsielem in Gozo) with the objective to reduce travel time, accident rates, transport costs and facilitate competitiveness in the transportation of goods.

The project was physically and financially completed in the course of 2010. The final report and the final payment claim for the project were received by the Commission in July 2011, while the winding-up declaration in January 2012. The Commission shall close the project and pay the outstanding balance in the course of 2012.

Technical Assistance

The technical assistance project aims at preparing the environmental projects pipeline for 2007-2013 Cohesion Fund projects (mechanical biological waste treatment plants and storm water master plan).

The project was physically and financially completed in the course of 2010. The final report and the final payment claim for the project were received by the Commission in July 2011, while the winding-up declaration in January 2012. The Commission closed the project and paid the outstanding balance in April 2012.

2.11. Poland

In 2011, the Commission adopted 18 amending decisions concerning Cohesion Fund projects (compared to 43 in 2010), all of them in the environment sector. These mostly concerned the end date of the project, changes in the physical scope, and raising the ceiling for advance and interim payments from 80% to 90%.

Out of the total 130 Cohesion Fund projects, 15 were closed by the end of 2011: 6 in the environment sector, 4 in the transport sector, and 5 technical assistance projects (1 in environment, 4 in transport). An additional 106 projects were under closure. The remaining 9 had their eligibility end dates extended beyond 2011 (or were in the process of modification for such an extension) and were therefore not required to submit closure documents. Of these, all but 3 will be due for closure in 2012.

The implementation of projects was strongly influenced by significant cost overruns amounting to one third of the entire Cohesion Fund allocation for Poland. The national authorities have secured the additional financing for all projects affected by cost overruns, with the exception of 5 projects in the environment sector and 1 transport project. Poland has requested a reduction of the physical scope in all 6 projects. The decisions on these amendments were not taken in 2011 due to ongoing discussions as to the details of the modifications and the impact of the scope reduction on the Cohesion Fund contribution. By the end of the year, however, a tentative agreement was reached for 3 of these projects, all from the environment sector.

On the other hand, there were 38 projects which achieved cost-savings totalling EUR 52.3 million of the Cohesion Fund grant.

At the end of 2011, there was no project left with an outstanding issue relating to the Environmental Impact Assessment (EIA) and 122 of the 130 projects were completed.

In 2011 the Commission authorised payments amounting to EUR 145.8 million. The smaller amount compared with previous years is due to the fact that almost all of the projects reached their ceilings for advance and interim payments.

Environment

The level of contracting exceeded 120% of the originally estimated costs in environmental projects, which represents 99% of the total expenditure when cost overruns are taken into account. The physical progress on the ground, aggregated for the sector, reached 97%, while the financial progress exceeded 98%.

77 closures were ongoing for investment projects in the environment sector.

Transport

The level of contracting was over 123% of the originally estimated cost for transport projects, or 99% if the cost overruns are taken into account. The physical and financial progress aggregated for the sector exceeded 95% and the financial progress was more than 94%.

The closure procedure for 17 investment projects was ongoing in the transport sector.

Technical assistance

By the end of 2011, 4 technical assistance projects were closed and closure was ongoing for a further 12 projects.

2.12. Slovakia

Environment

As a result of common efforts and measures taken in the previous period (action plans and strengthened monitoring) all Cohesion Fund environment projects with an exemption of the ‘Prešov - Drinking water and sewerage in the basin of Torysa river’ project were physically completed in 2010. Prešov project, due to a damaged infrastructure as a result of extreme flooding in June 2010, asked for extension of the final date of eligibility until the end of 2011.

Financial closure was completed in 2011 for 4 Cohesion Fund projects in the water sector: Komarno, Zvolen, South East Zemplin and Liptov. Komarno was closed with financial corrections incorporated by the Member State in the final claim at the request of the Commission. Zvolen and South East Zemplin were closed also with financial corrections following the results of a hearing with the Member State of December 2010 which concluded at the same time with the Commission opinion of not applying corrections to the Liptov and Trencin projects. For another project discussed at the hearing, Poprad-Matejovce, the Commission tried to get an agreement with the Slovak authorities on the ineligibility of a contract of additional works during 2011 without success, leading thus to launching a Decision reducing the Cohesion Fund contribution in the following year. The 16 remaining projects were all finished in due time and two of them (Samorin and Galanta) fulfilled all Regulation requirements to be closed with the full reimbursement of the balance. The remaining 14 projects are still under examination by the Commission services or waiting for supplementary information from the Member State concerning in most cases eligibility issues on additional works and application of the public procurement rules. Among these projects there is one on Technical assistance for the water companies and the remaining are located in Banska Bystrica, Zilina (waste water and Heating plant), Velky Krtis, Kosice, Sala, Horné Zemplin-Humenne, Trnava, Piestany, Horné Kysuce, Vranov, Orava and Bratislava (Flood protection).

Transport

All Cohesion Fund transport projects were physically completed in 2010. Administrative closure of the project Technical assistance for the project preparation in transport was successfully completed with the reimbursement of their final payment claim. Two transport projects (1 road project Construction of D1 motorway Mengusovce – Jánovce and 1 railway project Modernisation of Railway Track Trnava – Nove Mesto nad Vahom) remain to be administratively completed by the end of 2012.

2.13. Slovenia

The Commission approved 28 Cohesion Fund projects in Slovenia for the period 2000-2006, of which 16 relate to the environment sector, 8 relate to transport sector and 4 are for technical assistance.

During 2011, about EUR 10.65 million were paid out from the Cohesion Fund in terms of intermediate and final payments. Four projects were closed during the year.

A close monitoring of implementation has been put in place both by the Commission services and the national authorities so as to ensure a timely closure of projects. There is an overall delay in implementation which is mainly attributable to delays in public procurement and related appeals by bidders as well as to the negative impacts of the crisis (i.e. shortage of national/municipal co-financing). In addition, VAT has become a non-eligible expenditure due to a change of the national legislation (VAT became recoverable for municipalities).

Environment

In line with the Strategic Reference Framework for the Cohesion Fund, the main aim of assistance from the Cohesion Fund and ex-ISPA during the period 2000-2006 was to help municipalities and regions to improve drinking water supplies, sewerage networks and wastewater treatment (a total of 12 projects in the water sector) and waste management (4 projects in total).

The crisis in the past years led to a significant drop in municipal revenues, reduced transfers from the state budget, worsened access to bank loans and an increasing demand for municipal subsidies which negatively influenced the municipality's ability to respect the original work schedules for infrastructure projects. In addition, VAT has become a non-eligible expenditure due to a change of the national legislation. At the end of 2010, the Commission received 4 requests for an extension of the final date of eligibility to 31 December 2011. These requests have been screened at the end of 2010 and in 2011 and for all of them the eligibility end date was prolonged.

In 2011, the works on the ground have been implemented for the above 4 mentioned projects. While works have been successfully completed for the contracts under 3 projects, the works for 1 project were not finished due to a bankruptcy of the lead consortium partner. For the former projects, the closure documents are due in June 2012. For the latter project, the Commission is assessing a request for extending the end date of eligibility.

In 2011, 6 environmental projects entered the closure stage. While 3 of them were closed in 2011, 3 remain to be closed in 2012.

Transport

In 2003 the national authorities defined a National Cohesion Strategy for the transport sector which identified the objectives of its transport strategies and the projects to be financed through the Cohesion Fund. It involves the country establishing itself as a maritime transit country within the European Union and marketing its geopolitical position at the crossroads of two important European corridors (Corridors V and X) along the existing southern border of the EU. To this end, bottlenecks on corridors must first be removed, which involves the completion of the motorway network, upgrading, modernisation and completion of the rail network and increasing the range of logistical services.

The Cohesion Fund co-finances 6 railway projects and 2 motorway projects in the transport sector. Following reports of delays due to public procurement in previous years, all railway projects in 2010 were fully contracted and made satisfactory progress in physical and financial terms (all projects reached the 80% ceiling for advance and interim payments). All 8 transport projects entered the closure stage and 4 out of 8 were closed by the end of 2011 (1 was closed in 2011).

2.14. Bulgaria

In 2011, the total ex-ISPA grant for Bulgaria reflected in the Commission decisions has been reduced from EUR 879 million to EUR 791 million. This reduction results from the adoption of 4 amendment decisions.

The expenditure paid for the year 2011 was EUR 31.3 million, generated mainly from those projects for which the Commission agreed to extend the final date of eligibility deadline beyond 2010. The total payments (interim and advance ex-ISPA payments) by 31 December 2011 amount to EUR 646 million.

Environment

There are 25 Cohesion Fund/ex-ISPA environmental projects (19 in the water sector, 2 in the waste sector, 1 in the energy sector and 3 technical assistance projects). While 20 projects were finalised, for the rest of the projects full absorption and potential completion is out of reach. Out of the 20 projects that were successfully completed and put into operation the achieved physical progress by the end of 2011 is the following: 20 waste water treatment plants were built/renovated, 5 regional disposal sites were constructed, 243 km of sewage network and 337 km of water supply network were build/rehabilitated, 10 water projects and 7 waste projects were prepared under the technical assistance measures and they will be implemented through Operational programme Environment 2007-2013. These results were possible due to the extension of the final date of eligibility until the end of 2011 for 9 projects.

A most negative perspective for the absorption of the environment funds of ex-ISPA is due to: the mixture of substantial cost-increases during implementation, with the inability to take up all the available credits within the eligibility deadlines, the financial corrections applied due to the abuse of the negotiated procure in a number of procurement cases and the perspective of likely financial corrections in case of non-completion of the projects' objectives.

Transport

There are 11 Cohesion Fund/ex-ISPA transport project including 6 technical assistance projects focused specifically on the transport sector. Out of the 8 open transport projects, in 2011 the Commission has formally extended the final date of eligibility of 1 project (Danube Bridge II) by the end of 2012. The physical progress of the project was delayed due to contractual disputes resulting from substantial cost overruns claimed by the contractor. The managing authority and the contractor reached an agreement on the outstanding payment claims in November 2011 and the physical execution of the project is expected to be completed by the end of November 2012.

In 2011 the Commission completed the amendment of the Plovdiv-Svilengrad rail project and bridged its non-completed component to the Operational programme Transport 2007-2013. The physical execution of the remaining ex-ISPA component of the project has been completed in 2011 with funding secured by the Bulgarian authorities. As a result a 68 km railway section between Plovdiv and Dimitrovgrad has been re-constructed and electrified.

In mid-2011 the Bulgarian authorities finalised the construction of Liulin motorway and put into operation 19 km of motorway which connects Sofia ring road with 2 other highways.

The physical execution of the remaining 5 Cohesion Fund/ex-ISPA transport projects finished in 2010 or earlier.

2.15. Romania

In total 63 Cohesion Fund projects were approved by the Commission in the 2000-2006 programming period for Romania: 36 for the environmental protection-related measures in the water resources management and waste management sectors, 12 projects in the transport sector covering mainly rail and roads, and 15 technical assistance projects linked both with the environment and transport sectors.

Considering the 2000-2006 programming period, the total amount of grant decisions for Romania is slightly over EUR 2 billion. These commitments are shared evenly between the environment sector (50.4%) and the transport sector (49.6%), including technical assistance related to these sectors.

Implementation progress for 2011 was according to the revised schedule. Half the projects had to be completed by the end of 2010. For the other half the implementation period was prolonged to end 2011 and in 3 cases to end 2012.

Environment

The projects (deadline before end 2010) for which closure documents are complete in the environment sector demand EUR 25 million of payments and announce EUR 9 million of recoveries.

In the environment sector, most of the projects behind schedule were those approved in the years 2004-2006, which were mostly prolonged by one year for implementation. According to the Romanian authorities these projects were all completed at the end of 2011 and first closure documents will be sent in 2012.

Transport

For the projects in the transport sector for which closure documents are complete (deadline before end 2010) the demanded payments amount to EUR 16 million and the recoveries announced are EUR 34 million.

The projects, with the final date of eligibility in 2011, reported completion of works in time. For 3 big infrastructure projects the period of eligibility was extended to the end 2012, due to their late adoption and the important amount of funding involved. The scope of works for 1 railway project was reduced in line with the budget reduction for this project. A project which is a joint project with Bulgaria is having more difficulties to meet the deadlines.

Technical assistance

Out of 15 technical assistance projects, 5 technical assistance projects was closed by the end of 2011.

3. MONITORING, INSPECTIONS, FINANCIAL CORRECTIONS AND IRREGULARITIES

3.1. Monitoring activities in the beneficiary Member States

The final date of eligiblity of expenditure was reached for majority of Cohesion Fund projects and the project's implementation is coming to the end, only a limited number of monitoring committee meetings, monitoring missions, site visits and technical meetings with the managing authorities and beneficiaries took place in 2011.

These meetings, however, allowed to review or to follow-up project implementation, discuss financial data including payments and payment forecasts, examine progress reports, explore project achievements and discuss possible projects modifications, in the case of project changes and implementation difficulties. Moreover, such meetings permitted to examine the prospects for completion of the Cohesion Fund projects, determine possible solutions of any problems and horizontal issues like public procurement and cost overruns.

The meetings of the national authorities and the Commission representatives provided clarifications of any details linked to the closure process requirements, helped to better understand possible audit findings, explore impact of possible financial corrections and in general contributed to an improved preparation of the closure documents.

3.1.1. Greece

The final date of eligibility was reached for most of the Cohesion Fund projects and therefore various technical meetings and site visits took place in 2011. These meeting had as objective to ensure the full completion and operation of the co-financed projects.

3.1.2. Spain

Monitoring committees

The meeting of monitoring committee, which reviewed ongoing projects co-financed by the Cohesion Fund, was held in Madrid on 4 May 2011. To prepare the meeting, national authorities sent the reports reflecting the state of implementation as at 31 December 2010 for all decisions (covering a project or a group of projects) that were being implemented on that date. Among these, the managing authority - in partnership with the Commission - selected several projects which, by virtue of their particular situation, were subject to monitoring and a specific analysis during the sessions of this Committee. Specifically the following projects were discussed:

- 2004ES16CPE009: Abastecimiento en la Cuenca Hidrográfica del Tajo
- 2000ES16CPE023: Actuaciones en materia de residuos urbanos en Navarra
- 2000ES16CPE143: Plan Director Medioambiental de Getafe
- 2002ES16CPE023: Proyectos de residuos de la Junta de Castilla La Mancha
- 2003ES16CPE020: Planta de recuperación y compostaje de Jaén Sierra Sur
- 2005ES16CPE014: Sistema de Abrera y Sistema Castelloli

The Commission representatives reminded the need to submit all closure documents (final payment claim, final report, audit declaration) on time and within the established deadlines. There are currently significant delays in the submission of certain documents and of audit declarations in particular.

Monitoring missions

Two technical meetings took place in Madrid on 26 January and 11 April 2011. The managing authority, the certification authority and the Commission representatives took part in the meetings. The aim was to address the problems faced during the day-to-day management of projects and the measures required to overcome them.

In addition, one monitoring mission was conducted in June 2011 and its objective was to check the status of 11 water waste treatment plants in Picos de Europa in the north of the region of Castilla y León. The reason of the visit was the request from the NGO GEDEMOL to the European Parliament. The visits further included the following waste water treatment plants: Prioro, Boca de Huérgano, Espejos de la Reina y Barniedo de la Reina, Riano, Puebla de Lillo, Redipollos de Isoba. All the plants were in good working conditions.

3.1.3. Portugal

Monitoring committees

According to the internal regulation of the Portuguese monitoring committee relating to the Cohesion Fund infrastructures for the 2000-2006 period, these meetings are held twice a year. However, at the request of the national authorities no meeting was held in 2011. The 2011 monitoring committee was postponed to the beginning of 2012. The aim of the monitoring committee meeting was to follow-up the implementation of the projects, and to resolve problems related to deadlines, closures and audits, as well as to examine the prospects for completing their implementation in the short time that remained available. At the end of 2011, all the projects with the exception of the project ‘Metro de Lisboa – GIL/Aeroporto’ were completed.

Monitoring missions

In the course of 2010, the Commission services visited two projects (‘Metro de Lisboe: GIL-Aeroporto’ and ‘Infraestruturas de tratamento de RSU – Tratolixo’) in order to take note of their progress and, in certain cases, to discuss with the national authorities any technical or legal problems which had arisen.

3.1.4. Cyprus

Both Cohesion Fund projects for Cyprus were closed (completed and operational) and the Commissioner responsible for Cohesion Policy visited those projects during his official mission to Cyprus in July 2011.

3.1.5. Czech Republic

As the implementation of the majority of the projects was completed by the end of 2010, no monitoring committee meetings or monitoring missions for the remaining ongoing projects were carried out in 2011. The Czech authorities submitted detailed information on the progress regarding the 6 ongoing projects with extended eligibility dates by the end of 2011 on a quartely basis.

3.1.6. Estonia

The final monitoring committee meeting was held in 2010, discussing the final modification proposals and drawing conclusions for a new period. The Commission has mainly highlighted the need to learn lessons from the past and to try to improve and build on existing experience for the 2007-2013 programming period. No monitoring missions related to the projects were carried out in 2011

3.1.7. Hungary

There were two monitoring committee meetings in 2011, where all implementation reports were examined on a project-by-project basis. Problematic issues were raised mainly with the implementation of the waste water treatment plant project of Budapest (possible non-implementation of the tertiary treatment before the end of 2012 and delay in identifying an appropriate solution for sludge transport and disposal as foreseen in the revised Commission decision), and North Balaton waste project because of a fire accident that destroyed part of the plant.

3.1.8. Latvia

In 2011, there were no Cohesion Fund monitoring committees, but some technical meetings with final beneficiaries were organised to assist them in preparation of the final reports and replies to the Commission comments on closure documentation.

In 2010, two ‘electronic’ Cohesion Fund monitoring committees and one project visit took place. Main problems concerning implementation and closure of the projects were discussed.

3.1.9. Lithuania

Three monitoring committee meetings took place in Lithuania, on 13-14 July, 24-26 October and 19-20 December 2011 (the last meeting was not attended by the Commission). The Committee examined the progress reports submitted by the national authorities and discussed the implementation and closure issues of open ex-ISPA and Cohesion Fund projects. The Committee meetings were combined with visits to projects: ‘Neringa waste water treatment plant reconstruction, sewer network extension and potable water network rehabilitation’, ‘Hazardous Waste Management in Lithuania’ and ‘Venta-Lielupe River basin Investment Programme 1st Phase of the 1st Stage’.

Five technical meetings of the Cohesion Fund took place in the course of 2011:

- March 2011 (middle and western parts of Lithuania) – monitoring visit to check physical implementation of 3 waste projects 'Kaunas regional waste management', 'Telšiai regional waste management', 'Vilnius Waste Management' and 2 water projects 'Mažeikiai water and waste water project', 'Kaunas water and waste water project'. The on-site visits were followed-up by discussions with the managing authority, Ministry of Environment and Environmental Projects Management Agency on general questions, review of proposed modifications of the Cohesion Fund projects and clarification of the most problematic issues of the 2000-2006 Cohesion Fund environmental projects.

- April 2011 (Vilnius, Lithuania) – meeting with the winding-up body and managing authority to deal about general principles of eligibility issues and criteria to assess flexibility in deviation of implementation in respect of project description and indicators for the 2000-2006 Cohesion Fund projects at the closure.

- June 2011 (Kaunas, Lithuania) - visit on the spot and discussion on problematic issues of the project 'Rehabilitation of Kaunas Railway Tunnel' with the managing authority, Ministry of Transport and Communications, Transport Investment Directorate and final beneficiary, JSC Lietuvos geležinkeliai. The visit was combined with technical review of the progress of 2007-2013 railway infrastructure projects which was followed by project visits to some sections of the priority project No 27 Rail Baltica.

- July 2011 (Vilnius, Lithuania) – meeting with the managing authority, implementing transport and environmental agencies to examine the problematic and priority issues in transport and environment sectors of 2000-06 programming period, also to have a detailed discussion on the implementation of a number of major projects of 2007-2013 period. Two major projects were visited: 'Vilnius Sludge Treatment Facility' and 'Vilnius Western Bypass II stage'.

- December 2011 (Brussels, Belgium) - meeting with the managing authority, Ministry of Environment and national experts on the problematic issue related to the low connection rates of new users to the central water and waste water networks and planning of action and follow-up to ensure achievement of objectives.

3.1.10. Malta

Monitoring committees

Meetings of the monitoring committee for all three Cohesion Fund projects were held on 29 April 2011 and for the environmental project only on 17 November 2011. The Commission representatives attended both monitoring committee meetings.

Monitoring missions

No monitoring missions specific to the Cohesion Fund were carried out in 2011.

3.1.11. Poland

Monitoring committees

Two meetings of the Cohesion Fund monitoring committee were held in 2011 (on 1 June and 16 December). The meetings were attended by representatives of the managing authority, the paying authority, intermediate bodies, implementing agencies, social and economic partners and the final beneficiaries of ongoing projects.

The meetings were dedicated to a review of the progress in implementing individual projects. Discussion focused primarily on the closure process and on projects requesting a modification of the eligibility end date beyond 2010. Additionally, the following horizontal issues were discussed: payment rate and financial forecasts, cost overruns, EIA conditions, and delays in implementation.

Monitoring missions

No monitoring missions specific to the Cohesion Fund were carried out.

3.1.12. Slovakia

In 2010, it was suggested to present in a last monitoring committee an evaluation of impacts of projects in both sectors, i.e. environment and transport which would be closed with a press conference on the closure of the Cohesion Fund projects of the programming period 2000-2006 and to disseminate positive results and achievements in both sectors. For several reasons, mainly by the fact that only few projects were closed in 2011, all the rest still being the object of exchange of information between the national authorities and the Commission, this meeting was eventually not organised but it is not excluded that it will be organised in 2012.

3.1.13. Slovenia

Monitoring committees

One Cohesion Fund monitoring committee meeting was held in Slovenia in October 2011. The meeting focused on the closure process and documents (feedback on the quality of final reports), contractual relationships between implementing bodies and operators and the implementation of still open projects. Except issue on one environmental project which will not be completed by 31 December 2011 due to a bankruptcy of constructor consortium, there were no major issues.

Monitoring missions

There were no monitoring missions in 2011. In the framework of the information event in September 2011, the Slovene authorities invited citizens to Open Days into waste management centres. The Commission representatives paid a visit to the regional waste management centre Celje.

3.1.14. Bulgaria

In 2011 two monitoring committee meetings took place in June and in December. The meetings of the Committees were divided into two parts: project and sector based technical discussions, followed by the official meeting to address horizontal issues and draw conclusions from the technical discussions.

In order to enhance co-ordination and co-operation between Bulgaria and Romania, a Monitoring Sub-Committee for the construction of the Danube Bridge was set up at the initiative of the Commission, involving all relevant parties with a stake in the construction of the Danube Bridge. Two meetings were held in 2011 in Vidin and in Calafat.

3.1.15. Romania

Monitoring committees

During the year 2011 two monitoring committee meetings took place, both focusing on the ongoing projects. They represented a platform for advice and update on the closure for the projects to prepare closure documents. In particular, attention was paid to the timing of closure documents preparation and to the efforts to complete the projects.

Monitoring missions

Ad-hoc monitoring was carried out for projects presenting higher risk of non-completion for both sectors. Several projects were also visited by the Commission services. The joint Bulgarian-Romanian Danube Bridge had special monitoring arrangements in terms of more frequent reporting and a dedicated Monitoring Sub-Committee involving both the Bulgarian and the Romanian part of the project.

3.2. Audits and financial corrections in the beneficiary Member States

The following Member State-specific information complements the information contained in the Annual Report.

3.2.1. Greece

In Greece the main risks in public procurement is considered to have been addressed properly by way of Commission Decision C/2008/5026, as amended by C/2008/8720, which imposed a net financial correction on a number of ongoing and completed projects. In addition, the Greek law on public procurement does not fully comply with EU rules on public procurement as regards exemptions for the tendering of public works, but entails no amount at risk at closure by end 2011. The Commission's audit opinion on the Cohesion Fund system as at end 2011 is qualified moderate. The residual risk, taken into account the financial exposure, is low.

The Commission also examines the winding-up declarations on an individual basis before the closure of the projects, ensuring that any irregular expenditure can be identified and deducted at the closure of each project.

No audits were carried out in Greece on Cohesion Fund projects in 2010-2011 period by the Commission. Previous audits identified some implementation delays and weaknesses in public procurement procedures, resulting in the adoption of a financial correction decision in 2008. In addition, following an OLAF investigation of one Greek water supply project during 2008 and 2009, the national authorities took corrective measures.

Out of a total of 124 Greek Cohesion Fund projects, for 79 (56 environmental projects and 23 transport projects) a winding-up declaration has been submitted. Most winding-up bodies have been accepted by the Commission. For 3 projects a financial correction was proposed and for 4 projects the closure was suspended (these were projects which were not operational or which have a high error rate). In order to further examine this, additional information was requested from the national authorities.

3.2.2. Spain

Regarding Spain, it was established already by the end of 2010 that about 80% of the winding-up declarations submitted contained irregular expenditure, mainly related to non-compliance with public procurement rules. During 2011, one mission was carried out in Galicia to audit two projects. The Commission concluded with a qualified opinion for both of them due to public procurement issues (use of irregular criteria, lack of transparency in the evaluation procedure, contract modifications) and proposed a financial correction of EUR 20.9 million.

At the end of 2011, 249 winding-up declarations for Spanish projects had been received and the assessment of 121 winding-up declarations was closed. However, the eligibility period of the majority of Cohesion Fund projects in Spain has been extended until end 2011 or end 2012, meaning that the Commission will receive the winding-up declarations only in mid-2013 and 2014. Interim payments will be made for a large number of Spanish projects in 2011 and 2012.

In 2011 two hearings were organised, in order to finalise the closure of projects affected by irregularities but not decertified by the Member State. A limited number of projects were discussed (15 in 2011 versus 28 in 2010) due to failure to submit the requested technical information necessary to conclude on the regularity of contract modifications by the Spanish authorities. In view of the above, and taking into account the financial exposure, the residual risk related to Spanish Cohesion Fund projects is considered high.

The audit opinion of the Commission at the end of 2011 was qualified significant mainly due to deficiencies in the quality of Article 4 checks and Article 9 controls and lack of a strict and proactive supervisory role of Spanish authorities and the absence of decertification of irregular expenditure. Accordingly, the Directorate-General for Regional Policy's Annual Activity Report for 2011 contains a reputational reserve for the Cohesion Fund in Spain.

The Commission will continue to audit a sample of closed and ongoing Spanish projects, focusing on the risks identified above.

3.2.3. Portugal

In Portugal, the main risk detected by the Commission's system audits was in relation to deficient management verifications. This risk has been addressed through an action plan to verify a representative sample of expenditure declared during the years 2000 to 2004. The high coverage (52 out of the total 109 projects audited) and the signature, in January 2008, of a contract of confidence with the Portuguese winding-up body and audit authority, provides a high degree of reliance on the audit work done by the winding-up body, therefore no audit mission was carried out in 2011.

In 2011 the Commission analysed the annual control report under Article 12 of Regulation (EC) No 1386/2002 and 16 winding-up declarations for the closure of Portuguese Cohesion Fund projects. As a result, financial corrections were proposed for 6 projects.

The Commission's audit opinion on the Cohesion Fund system as at end 2011 is unqualified. The residual risk, taking into account the financial exposure, is low.

3.2.4. Cyprus

Based on the positive results of the review of the work of the winding-up body in 2008, the positive conclusions from other audit missions in Cyprus, and the desk work carried out by the Commission, a contract of confidence for the Cohesion Fund and ERDF was signed between the Commission and the Cypriot audit authority in December 2008.

An unqualified opinion was issued for Cohesion Fund expenditure in Cyprus in the 2011 Annual Activity Report. The residual risk, taken into account the financial exposure, is low. In addition, both Cypriot Cohesion Fund projects have submitted a winding-up declaration, which have been accepted by the Commission.

3.2.5. Czech Republic

In the Czech Republic, 30 Cohesion Fund projects have already been closed, out of a total of 58. During 2011, the closure process was slow, mainly due to irregular use of contractual penalties, as initially identified by the European Court of Auditors in one of the DAS 2010 audits. This issue was resolved in 2012.

The Commission's follow-up audit mission on retrospective verifications revealed that the Czech winding-up declarations did not identify and correct all relevant findings on public procurement. In many cases additional financial corrections have been proposed at closure by the Commission.

The audit opinion of the Commission at the end 2011 was qualified moderate and the residual risk taken into account the financial exposure was considered low, provided that the financial corrections resulting from the winding-up declaration analyses are implemented.

3.2.6. Estonia

Following the positive results of the audit work carried out in previous years, a contract of confidence was signed with Estonia in 2007, covering both the Cohesion Fund and the ERDF. No audit missions were carried out in Estonia in 2010 and 2011. All previous audit missions have been closed.

The Commission's audit opinion as at end-2011 for the Cohesion Fund in Estonia is unqualified. The residual risk, taking into account the financial exposure, is low.

3.2.7. Hungary

An audit mission was carried out in December 2009, primarily focusing on the compliance of contract modifications with the public procurement provisions. The audited sample included five Cohesion Fund environment and transport projects. A financial correction amounting to EUR 0.91 million was accepted by the Member State. However, one finding is still contested by the authorities for two projects. A 100% financial correction was proposed for the value of the contract modification amounting to EUR 1.37 million.

Another audit covering two environmental projects was carried out in November 2010 under the EPM review of winding-up bodies and closure of projects 2000-2006. The audit was closed in September 2011. A third audit was carried out in July 2011 covering one railway project. The main finding concerned direct award of a contract, for which a 100% financial correction to the contract value was proposed amounting to EUR 1.9 million.

The audits of the Commission detected several public procurement irregularities and also that the managing authority does not always implement the winding-up body's recommendations, closing findings without implementing financial corrections.

The Commission's audit opinion as at end 2011 is qualified moderate for Environment and Technical Assistance and qualified significant for the Transport sector. DG Regional Policy's Annual Activity Report for 2011 contains a reputational reserve for the Cohesion Fund in Hungary (transport sector).

3.2.8. Latvia

In Latvia, a fact-finding audit mission in 2010 revealed weaknesses in the functional independence of the winding-up body; improvements were made in 2011. Furthermore, public procurement irregularities were detected during the analysis of winding-up declarations. An audit mission was performed in 2011 covering two projects. The findings made are linked to public procurement and the audit trail.

Up to the end of 2011, for the environmental sector 25 winding-up declarations have been received and analysed by the Commission services (5 with proposed financial corrections and most likely a hearing will be organised in 2012). For the technical assistance projects, 2 winding-up declarations have been received and assessed by the Commission. For the transport sector, 17 winding-up declarations have been analysed.

The Commission's audit opinion at the end of 2011 is qualified moderate and the residual risk taken into account the financial exposure is medium.

3.2.9. Lithuania

For Lithuania, the residual risk is considered low/medium, taking into account the results of the audit work carried out by the winding-up body and by the European Court of Auditors. However, residual risks remain in the public procurement area.

During its closure audit carried out in 2011, the Commission noted material deficiencies, as the winding-up body did not always estimate the financial impact of its findings and was not satisfactorily following up the findings and irregularities detected. Important systemic weaknesses related to public procurement procedures were detected by the winding-up body, confirmed by the findings of the Commission and the European Court of Auditors.

The Commission's audit opinion at the end of 2011 was qualified moderate. However, since the beginning of 2011, the winding-up body is proposing corrections based on the COCOF guidance note (COCOF 07/0037/03).

3.2.10. Malta

No audit missions or financial correction procedures were carried in 2010-2011. Previous audit missions carried out in 2005 and 2007 did not give rise to any significant findings.

The Commission examined the annual control report under Article 12 of Regulation (EC) No 1386/2002 submitted by the Member State; this highlighted sufficient audit coverage and a zero error rate for Cohesion Fund projects.

By end 2011, two winding-up declarations have been received. These have been analysed and accepted during first quarter of 2012.

An unqualified opinion was issued for Cohesion Fund 2000-2006 expenditure in the 2011 Annual Activity Report. The management and control system in Malta shows good practice.

3.2.11. Poland

For Poland, the main risks identified during the previous years' audits have been addressed by the completion of an action plan aiming to increase the quality of audit work by the national authorities, in particular in the public procurement area. The subsequent annual control reports indicate that the audit authority identified and quantified irregularities due to non-compliance of public procurement procedures. Results of such additional verifications were included in the winding-up declarations received after 2009.

In June 2010, an agreement on self-correction was reached between the Polish authorities and the Commission services. In this regard the risks resulting from the systemic findings in the public procurement area are considered to be adequately addressed by the application at closure of a net flat rate correction on all Cohesion Fund projects closed after this date.

The Commission's audit opinion at the end 2011 was qualified moderate and the residual risk, taken into account the financial exposure, is medium.

3.2.12. Slovakia

No audit missions were carried out by the Commission in 2011 for the Cohesion Fund in Slovakia.

At the end of 2011, 36 winding-up declarations for the closure of projects had been received and 20 assessments had been fully closed. The majority of the Cohesion Fund projects are affected by findings related to public procurement issues and eligibility of expenditure. No hearings were organised in 2011. However, the Slovak authorities have requested a hearing in 2012 in respect of the selection criteria issue.

The Commission's audit opinion at end 2011 was qualified moderate.

3.2.13. Slovenia

On the basis of audit work carried out in the years 2005-2007, a contract of confidence was signed with Slovenia in February 2008, covering the Cohesion Fund and ERDF. Following this contract, no Cohesion Fund audit missions were carried out by the Commission in Slovenia in 2010 or 2011.

The audit work in 2011 included the examination of the annual control report under Article 12 of Regulation (EC) No 1386/2002 and of the annual summary.

The Commission's audit opinion as at end 2011 is unqualified for the Cohesion Fund in Slovenia.

3.2.14. Bulgaria

The Commission started on-spot audit work in Bulgaria in 2004, covering mainly the adequacy of the management and control systems. In 2005-2007, the Commission continued to carry out systems audits. The audits carried out in 2008-2009 revealed deficiencies in the area of public procurement, resulting in financial corrections being proposed by the Commission. A horizontal audit of environmental projects was carried by the winding-up body in 2009 in order to address the issue of the incorrect use of the negotiated procedure, the results of which were assessed by the Commission. This is considered an important mitigating factor for the environment sector. As a consequence, a financial correction of approximately EUR 18 million was accepted by the managing authority in 2010 and the remaining EUR 0.7 million was accepted in 2011.

An audit in the transport sector carried out by the Commission in 2009 identified deficiencies in the methodology and work of the winding-up body in the area of public procurement, publicity and revenue generation.

An audit mission was carried out in May 2011 to further assess the work and reliance of the winding-up body. Deficiencies were identified relating to the award of additional works and delays in project implementation.

Six winding-up declarations were received and analysed by the end of 2011. The closure of one technical assistance project was interrupted.

The annual control report under Article 12 of Regulation (EC) No 1386/2002 was qualified due to weaknesses in controls performed by the Road Infrastructure Agency and irregular expenditure identified in one technical assistance project and in one environment project.

The Commission's audit opinion at the end of 2011 is qualified moderate for Environment and Technical Assistance and for the Transport sector except for the Road Infrastructure Agency (RIA), which is qualified significant. The overall residual risk, taking into account the financial exposure, is considered medium.

3.2.15. Romania

Since 2004, a total of 24 projects have been audited on the spot in Romania up to the end of 2011. The following residual risk factors have been identified for the transport and environment sector: weaknesses detected in the area of public procurement and in management verifications, delayed implementation of improved reliability of accounting, monitoring and reporting system in computerised form and difficulties related to the application of financial corrections due to the complex national legal framework.

One mission was carried out in 2011 covering three environment and transport projects. Findings were noted in the area of public procurement and eligibility.

The annual control report under Article 12 of Regulation (EC) No 1386/2002 was submitted and examined by the Commission in 2011. Ten winding-up declarations were analysed during

2011, leading to further clarifications being requested from the Romanian authorities for all the files.

In the 2011 Annual Activity Report of the Directorate-General, the opinion issued for Cohesion Fund Romania was qualified with moderate impact.

3.3. Financial corrections

The amount of financial corrections implemented for the 2000-2006 Cohesion Fund projects in the year 2011 reached EUR 114.9 million. About 82% of the amount was implemented by decommitment/deduction at closure, 15% was implemented by Member States and 3% was implemented by recovery order. Most of the Member States implemented financial corrections in 2011 as presented in the Table 1.

In 2011, the cumulative amount of financial corrections decided/agreed for the 2000-2006 Cohesion Fund projects was EUR 508 million. By end 2011, 67% of decided/agreed corrections for the 2000-2006 Cohesion Fund have been implemented by Member States (i.e. EUR 342 million), either immediately through recovery orders issued by the Commission (when they resulted from formal Commission decisions) or through withdrawals of the agreed amounts from subsequent statements of expenditure by the Member States (including after recoveries from individual beneficiaries where possible).

Table 1: Financial corrections decided/agreed and implemented in 2011 for the Cohesion Fund, period 2000-2006 by Member State

Member State	Decided/agreed	Implemented
Greece	1 272 734	1 723 858
Ireland		627 640
Portugal	4 139 400	4 550 144
Spain	-5 413 806	74 297 593
Cyprus		
Czech Republic	7 921 142	5 445 680
Estonia	77 353	77 353
Hungary	2 581 124	1 666 250
Latvia		
Lithuania	206 765	206 765
Malta		
Poland	4 796 351	11 282 427
Slovakia	922 150	2 590 313
Slovenia		
Bulgaria	690 206	9 432 772
Romania	221 365	2 968 735
TOTAL	**17 414 784**	**114 869 530**

The above table does not include the results of the Member States' own checks of Cohesion Fund expenditure. Corrections implemented in 2011 refer to corrections decided/agreed in 2011 or in previous years.