IN-DEPTH ANALYSIS

European Parliament

# Thematic overview: Member States whose 2019 DBPs are "at risk of non-compliance" with the Stability and Growth Pact

*This briefing gives an overview of recent European Commission (COM) opinions on the budgetary situation of five Member States (Belgium, Spain, France, Portugal and Slovenia) whose 2019 Draft Budgetary Plans (DBPs) are assessed to be "at risk of non-compliance" with their obligations under the Stability and Growth Pact (SGP) and of one country (Italy) whose 2019 DBP is considered to be in particularly serious non-compliance with its obligations under the SGP. This briefing will be updated as further assessments by the COM become available during spring 2019.*

## The countries at risk of non-compliance

The briefing contains - in the overleaf table - a detailed overview on the COM opinions on the 2019 DBPs of the Member States assessed to be "*at risk of non-compliance*" or "*at particular serious non-compliance*" with their nominal and structural targets (concerning public deficit and debt) as recommended by the Council under the SGP.

- All euro area Member States have submitted in October 2018 their 2019 DBPs, in accordance with Regulation (EU) No. 473/2013. On 13 November 2018, the Italian Minister of Finance sent a revised DBP and an accompanying letter to the COM, confirming the fiscal objectives included in the original DBP and presenting a privatisation objective of 1% of GDP in 2019 with the aim to have a reducing effect on the debt ratio.
- On 21 November 2018, the COM concluded as part of its opinions on the 2019 DPBs (including the revised DBP of Italy) that five Euro Area Member States are either at "*risk of non-compliance*" or at *"particular serious non-compliance"* with their current obligations under the SGP, namely **Spain** in the corrective arm and **Belgium, France, Italy, Portugal and Slovenia** in the preventive arm of the SGP; **Italy** is the only country whose DBP is considered at *"particular serious non-compliance"* with the current obligations under the SGP; it is also the first time that a Member State is assessed to be at *"particular serious non-compliance"*.
- Overall, the COM opinions on the DBPs have become more positive over the years: last year, six Euro Area Member States where at "*risk of non-compliance*" and in the year before seven Euro Area Member States where at "*risk of non-compliance*".
- In connection to the opinion on Italy, the COM published on 21 November 2018 a report under Art. 126 (3) TFEU, which concludes "*Overall, the analysis suggests that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as not complied*

ECONOMIC GOVERNANCE SUPPORT UNIT
Author: J. Angerer
Directorate-General for Internal Policies
PE 624.428 - December 2018

EN

*with, **and that a debt-based EDP is thus warranted**.*" The conclusion is notably based on the argument that "*the identified risk of significant deviation from the recommended adjustment path towards the MTO in 2018 and the particularly serious non-compliance for 2019 with the recommendation addressed to Italy by the Council on 13 July 2018, based on both the government plans and the COM 2018 autumn forecast.*"

- On 29 November 2018, the Economic and Financial Committee (EFC) of the ECOFIN Council, in accordance with Art. 3 of **Council Regulation 1467/97,** formulated its opinion on the Commission report (126(3)), agreeing with the COM proposal (EFC opinions are not published). See possible further steps under the EDP in the Annex.
- On 4 December 2018, the Eurogroup issued a statement on the 2019 DBPs, in which it noted that Luxembourg, Latvia and Slovenia submitted DBPs on a no-policy-change basis and invited them to submit the updates of their DBPs as soon as possible and looks forward to the COM assessment of those updates. It also noted that "*current economic conditions call for the urgent need to rebuild fiscal buffers, notably in Member States that have not reached their Medium-Term Budgetary Objectives (MTO)*". Furthermore, it supported the COM assessment on Italy and recommended Italy to take the necessary measures to be compliant with the SGP. It noted that Belgium, France, Portugal and Spain are not expected to comply prima facie with the debt reduction benchmark in 2019. It invited all countries identified by the COM to be at "risk of non-compliance" to address in a timely manner the risks identified by the COM and to ensure that their 2019 budget will be compliant with SGP provisions.

## The methodological framework

The COM opinions on the 2019 DBPs include assessments of the fiscal effort taken by the concerned Member States, made on the basis of a common methodological framework which was specified in November 2016 both as regards the Excessive Deficit Procedure (the previous update/specification was done in June 2014) and the preventive arm of the SGP, by putting a stronger focus on the expenditure benchmark. The Council stated in this respect in December 2016:

"*On 29 November 2016, the Economic and Financial Committee reached agreement on how to simplify the assessment of compliance with the pact's rules. The agreement covers both the preventive and corrective arms of the pact as relates to the assessment of member states' fiscal policies and outcomes. No change to the legislation underlying the pact is envisaged. **Stronger focus on an expenditure-based indicator is envisaged for setting and assessing fiscal policies, reducing complexity in the fiscal surveillance framework. The indicator involves setting an upper limit for the growth rate of government expenditure.** This is considered an operational and easy-to-measure target that will guide member states in the preparation and monitoring of their budgets. **The structural balance indicator will remain an essential part of the fiscal surveillance framework**.*"

The updated framework includes specifications on the flexibility within the existing rules of the SGP (via so-called investment and structural reform clauses and via a matrix specifying economic good and bad times within the preventive arm of the Pact), endorsed by the ECOFIN Council in February 2016. Furthermore, it specifies *inter alia* the "top down" and "bottom up" approaches used in the assessment of effective action by the COM. In addition, the Council agreed in October 2016 on two further methodological steps relating to the estimation of potential output and output gaps.

In addition to the opinions on the DBPs, the COM has published related Staff Working Documents, which include more details as regards the methodology used.

For further information on the rules of the SGP, see SGP Vademecum of March 2018 and the Report on Public Finances in the EMU of January 2018. The main legal provisions relating to the implementation of the SGP are also available in the Annex of this briefing.

The relevant Council recommendations referred to in the overleaf table are in the case of the preventive arm of the SGP the fiscal recommendations of the 2018 Country Specific Recommendations (CSRs) adopted by the Council in July 2017 under the European Semester. In the case of the corrective arm, the relevant Council recommendations are the latest decisions taken by the Council pertaining to the corresponding Excessive Deficit Procedure (EDP).

The COM opinions on the DBPs focus on *compliance* with the SGP and the recommendations/decisions issued on that basis. Articles 11 and 12 of EU Regulation 473/2013 stipulate inter alia that the COM opinion on the DBP shall be taken into account when (1) opening an EDP, (2) recommending the imposition of a non-interest bearing deposit under an EDP and (3) when considering whether effective action has been taken in response to recommendations under an EDP.

The COM is expected to assess in May 2019 the compliance of all Member States with their current obligations under the SGP. Already in February/March 2018, the COM will issue country reports under the European Semester which, if they have the same approach as last year, will include the degree of **progress** in addressing the structural part of the fiscal Country Specific Recommendation issued by the Council:

See also separate EGOV briefings "Implementation of the SGP" and "Structural budget balances in EU Member States".

## Disclaimer and Copyright

The content of this document is the sole responsibility of the author and any opinions expressed therein do not necessarily represent the official position of the European Parliament. It is addressed to the Members and staff of the EP for their parliamentary work. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.
© European Union, 2018.

Contact: egov@ep.europa.eu
This document is available on the Internet at: www.europarl.europa.eu/supporting-analyses

# Spain

**Subject to EDP**: In 2018, requested compliance with nominal deficit targets: *"(...) 3.1 % of GDP in 2017 and 2.2 % of GDP in 2018"* and fiscal effort: *"(...) 0.5 % of GDP improvement in both 2017 and 2018"* as adopted by the latest Council recommendation under the EDP.

In 2019, If the country has exited the EDP and is subject to the preventive arm in 2019, requested compliance with 2018 fiscal CSR as adopted by the Council on 13 July 2018, notably: "*ensure that the nominal growth rate of net primary government expenditure does not exceed 0,6 % in 2019, corresponding to an annual structural adjustment of 0,65 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio.*"

| | Overall assessment of compliance with the recommendations under EDP (for 2018) and the 2018 fiscal CSR (for 2019) | Detailed assessment of compliance | |
|---|---|---|---|
| | | **for 2018** | **for 2019** |
| **COM Opinion (11/2018)** | *"Overall, the COM is of the opinion that **the DBP of Spain is at risk of non-compliance with the provisions of the Stability and Growth Pact**. In particular, the COM projects a risk of **significant deviation from the required adjustment path to the MTO**. Moreover, Spain is **not expected to make sufficient progress towards compliance with the debt reduction benchmark in 2019**. Therefore, the COM invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2019 budget will be compliant with the SGP and to use windfall gains to accelerate the reduction of the government debt-to-GDP ratio" (p.4)* | Nominal target:<br>*"The DBP projects a **headline deficit of 2.7% of GDP in 2018** (..)" (p. 2)*<br>*"Both the DBP and the COM 2018 autumn forecast project that the **headline deficit target of 2.2 % of GDP for 2018** required by the Council Decision of 8 August 2016 **will not be achieved** (...) **However, at 2.7 % of GDP, the headline deficit is forecast to be below the Treaty reference value of 3.0% in 2018, in line with the deadline set by the Council**." (p.3)*<br>Fiscal effort<br>*"In addition, the required fiscal effort is not expected to be met, according to all usual metrics." (p. 3)* | Expenditure benchmark:<br>"***The growth rate of net primary expenditure as recalculated by the COM on the basis of the DBP is 2.2%, which corresponds to a gap to the required growth rate of 0.6% of GDP*** *[remark by EGOV: please note that that the gap between the expected growth rate of net primary expenditure (2.2%) and the required maximum growth rate of net primary expenditure (0.6%) amounts to 1.6%].* **" (p. 3)**<br>Structural balance:<br>***The improvement in the recalculated structural balance in the DBP amounts to 0.4% of GDP, implying a gap with the required adjustment of -0.3% of GDP. According to the COM 2018 autumn forecast, the gaps are even larger, at -1.1% of GDP for the expenditure benchmark and -0.6 % of GDP for the structural balance**. It points to a risk of a significant deviation from the recommended adjustment path towards the MTO in 2019*". (p. 3) |

<table>
<tr><td></td><td></td><td></td><td><u>Debt rule:</u><br>"The DBP indicates that the government debt-to-GDP ratio will decline from 97.0% in 2018 to 95.5% in 2019, below the COM's projection of 96.2%. Both according to the DBP and the COM 2018 autumn forecast, Spain is not expected to make sufficient progress towards compliance with the debt reduction benchmark in 2019, which would require an improvement of the structural balance of 0.6% of GDP." (p.4)</td></tr>
<tr><td></td><td colspan="3">Requested compliance with the structural part of the 2018 fiscal CSR: "Ensure compliance with Council Decision (EU) 2017/984 giving notice under the excessive deficit procedure, <u>incl. through measures to enforce the fiscal and public procurement frameworks at all levels of government</u>."</td></tr>
<tr><td></td><td colspan="3">Assessment of compliance</td></tr>
<tr><td></td><td colspan="3">"The Council also requested Spain to take measures to improve its public procurement policy framework. Spain adopted a new law on public sector contracts in November 2017. A new governance structure has been created, but the adoption of the planned Procurement Strategy is delayed" (p.3)<br><br>"The COM is also of the opinion that Spain has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of those recommendations will be made in the 2019 Country Report and assessed in the context of the country-specific recommendations to be proposed by the COM in May 2019." (p.4)</td></tr>
</table>

<table>
<tr><td colspan="4">

**Belgium**

**Subject to the preventive arm**: In 2018, requested compliance with the 2017 fiscal CSR as adopted by the Council on 11 July 2017, notably: "*In 2018, in light of its fiscal situation and in particular of its debt level, Belgium is expected to further adjust towards its MTO of a balanced budgetary position in structural terms. According to the commonly agreed adjustment matrix under the SGP, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure which does not exceed 1, 6 % in 2018. It would correspond to an annual structural adjustment of at least 0,6 % of GDP.* "

In 2019, requested compliance with the 2018 fiscal CSR as adopted by the Council on 13 July 2018, notably: "*Ensure that the nominal growth rate of net primary government expenditure does not exceed 1,8 % in 2019, corresponding to an annual structural adjustment of 0,6 % of GDP*."
</td></tr>
<tr><td rowspan="4">COM Opinion (11/2018)</td><td rowspan="2">Overall assessment of compliance with the SGP</td><td colspan="2">Detailed assessment of compliance</td></tr>
<tr><td>for 2018</td><td>for 2019</td></tr>
<tr><td rowspan="2">"Overall, the COM is of the opinion that the DBP of Belgium is at risk of non-compliance with the provisions of the SGP. In particular, the COM projects a risk of significant deviation from the required adjustment towards the MTO for 2018 and 2019. Additionally, Belgium is not projected to comply with the debt reduction benchmark in 2018 and 2019." (p. 3)</td><td>"The DBP indicates an expenditure benchmark gap of 0.6% of GDP in 2018 and of 0.5% of GDP over 2017 and 2018 taken together, pointing to a risk of a significant deviation. The COM 2018 autumn forecast also shows a risk of significant deviation, as it points to an expenditure benchmark gap of 0.8% of GDP in 2018 and of 0.6% of GDP over 2017 and 2018 taken together. Uncertainties remain regarding the treatment of the increase in corporate income tax payments in 2018, which could affect the reading of both the structural balance and the expenditure benchmark." (p. 3)</td><td>"The DBP indicates an expenditure benchmark gap of 0.6% of GDP in 2019 and of 0.6% of GDP on average over 2018 and 2019 taken together, pointing to a risk of a significant deviation. Those conclusions are confirmed by the COM 2018 autumn forecast which projects an expenditure benchmark gap of 0.9% of GDP in 2019 and of 0.9% of GDP on average over 2018 and 2019 taken together. If the flexibility requested under the structural reform clause were deducted from the requirement for 2019, the COM forecast would still point to a risk of significant deviation over 2018-2019 taken together."</td></tr>
<tr><td colspan="2"><u>Debt rule</u>: "On 23 May 2018, the COM issued a report under Article 126(3) TFEU, as Belgium did not comply with the debt reduction benchmark in 2017. The report could not fully conclude as to whether the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 was complied with, as there was insufficient robust evidence to conclude on the existence of a significant deviation for Belgium in 2017 and over 2016 and 2017 together. The DBP indicates that the government debt-to-GDP ratio will reach 100.2% in 2019, above the COM's projection of 99.8%. The</td></tr>
</table>

<table>
<tr><td rowspan="4"></td><td></td><td>DBP does not include sufficient information to assess compliance with the debt reduction benchmark. Based on the COM's 2018 autumn forecast, Belgium is not projected to comply with the debt reduction benchmark in 2018 and 2019, with a gap of 0.5% of GDP in each year." (p.3)</td></tr>
<tr><td colspan="2">Requested compliance with the structural part of the 2018 fiscal CSR: "Pursue the envisaged pension reforms and contain the projected increase in long- term care expenditure. Pursue the full implementation of the 2013 Cooperation Agreement to coordinate fiscal policies of all government levels. Improve the efficiency and composition of public spending at all levels of government to create room for public investment, in particular by carrying out spending reviews."</td></tr>
<tr><td colspan="2">Assessment of compliance</td></tr>
<tr><td colspan="2">"The COM is also of the opinion that Belgium has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and thus invites the authorities to accelerate progress." (p. 5)</td></tr>
</table>

## France

**Subject to the preventive arm**: in 2018, requested compliance with the 2017 fiscal CSR as adopted by the Council on 11 July 2017, notably: "*France is expected to further adjust towards its MTO of a structural deficit of 0,4 % of GDP. According to the commonly agreed adjustment matrix under the SGP, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure which does not exceed 1,2 % in 2018. It would correspond to an annual structural adjustment of 0,6 % of GDP*."

In 2019, requested compliance with the 2018 fiscal CSR as adopted by the Council on 13 July 2018, notably: "*Ensure that the nominal growth rate of net primary government expenditure does not exceed 1,8 % in 2019, corresponding to an annual structural adjustment of 0,6 % of GDP*."

<table>
<tr><td rowspan="4">COM Opinion (11/2018)</td><td rowspan="2">Overall assessment of compliance with the SGP</td><td colspan="2">Detailed assessment of compliance</td></tr>
<tr><td>for 2018</td><td>for 2019</td></tr>
<tr><td rowspan="2">"Overall, the COM is of the opinion that the DBP of France is at risk of non-compliance with the provisions of the SGP. In particular, the COM projects a risk of significant deviation from the required adjustment towards the MTO for 2018 and 2019 taken together. Moreover, France is not expected to make sufficient progress towards compliance with the debt reduction benchmark in 2018 and 2019." (p. 3)</td><td>"According to the data in the DBP, the expenditure benchmark shows a gap of 0.6% of GDP, which points to a significant deviation from that requirement. In turn, <u>the </u>COM 2018 autumn forecast implies a slightly lower expenditure benchmark gap, pointing to a risk of some deviation from the requirement." (p. 3)</td><td>"The expenditure benchmark shows a gap of 0.1% of GDP, which points to some deviation from that requirement. However, for 2018 and 2019 taken together, the expenditure benchmark shows a significant deviation as the gap amounts to 0.4% of GDP on average. Those conclusions are confirmed by the COM 2018 autumn forecast, which points to an expenditure benchmark gap of 0.3% of GDP for 2019 and to an expenditure benchmark gap of 0.4% of GDP for 2018 and 2019 taken together." (p. 3)</td></tr>
<tr><td colspan="2"><u>Debt rule</u>: "The DBP does not include sufficient information to assess compliance with the transitional arrangements to make sufficient progress towards compliance with the debt reduction benchmark. Based on the COM 2018 autumn forecast, France is not projected to make sufficient progress towards compliance with the debt reduction benchmark in 2018 and 2019, with a gap of 0.5% and 0.8% of GDP, respectively." (p.3)</td></tr>
</table>

| | |
|---|---|
| | **Requested compliance with the structural part of the 2018 fiscal CSR:** "*Implement expenditure savings in 2018 and fully specify the objectives and new measures needed in the context of Public Action 2022, for them to translate into concrete expenditure savings and efficiency gains measures in the 2019 budget. Progressively unify the rules of the different pension regimes to enhance their fairness and sustainability.*" |
| | **Assessment of compliance** |
| | *"The COM is also of the opinion that France has made* ***limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018*** *in the context of the European Semester and thus invites the authorities to accelerate progress."* (p. 4) |

# Italy

**Subject to the preventive arm**: In 2018, requested compliance with the 2017 fiscal CSR as adopted by the Council on 11 July 2017, notably: "*requirement of a nominal rate of reduction of net primary government expenditure by at least 0,2 % in 2018. It would correspond to an annual structural adjustment of at least 0,6 % of GDP"*.

In 2019, requested compliance with the 2018 fiscal CSR as adopted by the Council on 13 July 2018, notably: "*Ensure that the nominal growth rate of net primary government expenditure does not exceed 0,1 % in 2019, corresponding to an annual structural adjustment of 0,6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio*".

| | Overall assessment of compliance with the SGP | Detailed assessment of compliance | |
|---|---|---|---|
| | | **for 2018** | **for 2019** |
| **COM Opinion (11/2018)** | *"The COM Opinion of 23 October 2018 identified in Italy's 2019 DBP plan a particularly serious non-compliance with the recommendation addressed to Italy by the Council on 13 July 2018.* ***Overall, based on an assessment of the government plans in the revised 2019 DBP and on the COM 2018 autumn forecast, the COM confirms the existence of a particularly serious non-compliance with the recommendation addressed to Italy by the Council on 13 July 2018****. The COM is also of the opinion that the measures included in the revised 2019 DBP indicate a risk of backtracking on reforms that Italy had adopted in line with past CSRs, as well as with regard to the structural fiscal aspects of the recommendations addressed to Italy by the Council on 13 July 2018." (p. 7)* | *"Based on the revised 2019 DBP, the* ***expenditure benchmark points to an inadequate fiscal adjustment in 2018****, because the growth rate of Italy's government expenditure, net of discretionary revenue measures and one-offs, will exceed that recommended by the Council. In addition, the* ***improvement in the structural balance planned by the government for 2018 departs from the adequate structural adjustment of 0.3% of GDP****. An overall assessment based on the government plans points to a* ***risk of significant deviation from the adjustment path towards the MTO*** *recommended by the Council for 2018.* ***Based on the COM 2018 autumn forecast, the overall assessment based on the government plans is confirmed****, because the expenditure benchmark also points to an inadequate fiscal adjustment in 2018, and the same indication is provided by the structural balance pillar." (p.5)* | *"Based on the revised 2019 DBP, the expenditure benchmark points to a* ***risk of significant deviation both in 2019 (gap of 1.3% of GDP) and over 2018 and 2019 taken together (gap of 0.9% of GDP per year****, on average, taking into account the adjustment for both years recommended by the Council), because the growth rate of government expenditure, net of discretionary revenue measures and one-offs, will exceed that recommended by the Council. The same indication is provided by the* ***structural balance pillar, which points to a risk of significant deviation both over one year (gap of 1.5% of GDP in 2019) and over 2018 and 2019 taken together (gap of 1.0% per year, on average,*** *taking into account the adjustment for both years recommended by the Council). That finding would not change after considering the reduced requirement in 2018 following the application of the margin of discretion. An overall assessment based on the* |

| | | | |
|---|---|---|---|
| | | | *government plans points to a particularly serious non-compliance with the adjustment path towards the MTO recommended by the Council for 2019. That conclusion would not change even if the budgetary impact (around 0.2% of GDP) of the extraordinary maintenance programme for the road network and connections following the collapse of the Morandi bridge in Genoa and of a preventive plan to limit hydrogeological risks following adverse weather conditions were considered as unusual events outside the control of the Member State concerned (...)* ***Based on the COM 2018 autumn forecast, the overall assessment based on the government plans is confirmed, because the expenditure benchmark also points to a risk of significant deviation both in 2019 (gap of 1.5% of GDP) and over 2018 and 2019 taken together (gap of 1.3% of GDP per year, on average****, taking into account the adjustment for both years recommended by the Council).* ***The same indication is provided by the structural balance pillar, which points to a risk of significant deviation both over one year (gap of 1.8% of GDP in 2019) and over 2018 and 2019 taken together (gap of 1.2% per year, on average)."*** *(pp 5/6)* |
| | | <u>Debt rule</u>: *"The revised 2019 DBP expects that the debt-to-GDP ratio will slightly decline from 131.2% of GDP in 2017 to 130.9% in 2018, 129.2% in 2019, and 127.3% in 2020.* ***Italy is not projected to comply with the debt reduction benchmark in either 2018 or 2019 based on the government plans. That conclusion is confirmed on the basis of the COM 2018 autumn forecast, which expects that Italy's debt-to-GDP ratio will remain broadly stable at around 131% over 2019-2020.*** *(...)* ***On 23 May 2018****, in view of Italy's prima facie non-compliance with the debt reduction* | |

| | | |
|---|---|---|
| | | *benchmark in 2016 and 2017, the* ***COM adopted a report under Article 126(3) of the Treaty*** *on the Functioning of the European Union, analysing whether Italy was compliant with the debt criterion of the Treaty.* ***After considering all the relevant factors and in particular Italy's compliance with the preventive arm, the report concluded that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as complied with at that stage. Italy's particularly serious non-compliance identified by the COM with the recommendation addressed to it by the Council on 13 July 2018 represents a material change in the relevant factors*** *analysed by the COM on 23 May 2018.* ***That calls for revisiting the COM's assessment.***" *(p.6)* |
| | **Requested compliance with the structural part of the 2018 fiscal CSR:** "*Shift taxation away from labour, incl. by reducing tax expenditure and reforming the outdated cadastral values. Step up efforts to tackle the shadow economy, including by strengthening the compulsory use of e-payments through lower legal thresholds for cash payments. Reduce the share of old-age pensions in public spending to create space for other social spending.*" | |
| | **Assessment of compliance** | |
| | "*The COM is also of the opinion that the measures included in the revised 2019 DBP indicate a risk* ***of backtracking on reforms that Italy had adopted in line with past CSRs, as well as with regard to the structural fiscal aspects of the recommendations addressed to Italy by the Council on 13 July 2018.***" *(p. 7)* | |

# Portugal

**Subject to the preventive arm**: In 2018, requested compliance with the 2017 fiscal CSR as adopted by the Council on 11 July 2017, notably: "*Portugal is expected to further adjust towards its MTO of a structural surplus of 0,25 % of GDP. According to the commonly agreed adjustment matrix under the SGP, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure which does not exceed 0,1 % in 2018. It would correspond to a structural adjustment of at least 0,6 % of GDP.*".

In 2019, requested compliance with the 2018 fiscal CSR as adopted by the Council on 13 July 2018, notably: "*Ensure that the nominal growth rate of net primary government expenditure does not exceed 0,7 % in 2019, corresponding to an annual structural adjustment of 0,6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio.*"

| | Overall assessment of compliance with the SGP | Detailed assessment of compliance | |
|---|---|---|---|
| | | for 2018 | for 2019 |
| COM Opinion (11/2018) | *"Overall, the COM is of the opinion that the DBP of Portugal is* ***at risk of non-compliance with the provisions of the SGP****. In particular, the COM projects a* ***risk of significant deviation from the required adjustment towards the MTO for both 2018 and 2019****. Moreover, Portugal is* ***not expected to make sufficient progress towards compliance with the debt reduction benchmark in 2019****." (pp. 4/5)* | *"****On the basis of the (recalculated) DBP, while the expenditure benchmark points to a risk of significant deviation (gap of 1.4% of GDP) in 2018, the structural balance points to a risk of some deviation (gap of 0.2% of GDP).*** *Taking into account the negative impact of low medium-term potential growth on the expenditure benchmark and the positive impact of revenue windfalls and lower interest costs on the structural balance, both indicators would point to a* ***significant deviation****. (...) This risk of significant deviation for 2018 is* ***confirmed by an overall assessment based on the COM 2018 autumn forecas****t. That conclusion would not change if the budgetary impact of the exceptional wildfire-prevention expenditure was deducted from the requirement." (p. 3/4)* | *"****On the basis of the (recalculated) DBP, while the expenditure benchmark again points to a risk of significant deviation (gap of 1.1% of GDP) in 2019 and over 2018 and 2019 taken together (average gap of 1.3% of GDP), the (recalculated) structural balance points to risk of some deviation (gap of 0.4% of GDP) in 2019 and significant deviation over two years (average gap of 0.3% of GDP) from the recommended structural adjustment.*** *The fiscal effort based on the expenditure benchmark pillar is negatively impacted by lower underlying potential growth while the fiscal effort based on the structural balance pillar is positively impacted by revenue windfalls and declining interest expenditure. (...) Based on an overall assessment, the DBP plans a significant deviation from the recommended structural adjustment towards the MTO in 2019 and over* |

<table>
<tr><td rowspan="5"></td><td rowspan="2"></td><td></td><td>2018 and 2019 taken together. The COM 2018 autumn forecast also points to a risk of significant deviation from the recommended adjustment path towards the MTO in 2019, since the gaps for both the expenditure benchmark (1.4% of GDP) and the structural balance (0.6% of GDP) exceed the threshold for significant deviation. In addition, over 2018 and 2019 taken together, both indicators point to a risk of a significant deviation (average gap of 1.5% of GDP for the expenditure benchmark and of 0.4% of GDP for the structural balance" (p. 4 )</td></tr>
<tr><td colspan="2"><u>Debt rule</u>: "The DBP indicates that the government debt-to-GDP ratio will decline from 121.2% in 2018 to 118.5% in 2019, slightly below the COM's projection of 119.2%. The DBP does not include sufficient information to assess compliance with the transitional arrangements to make sufficient progress towards compliance with the debt reduction benchmark. Based on the COM 2018 autumn forecast, Portugal is projected to make sufficient progress towards compliance with the debt reduction benchmark in 2018 but not in 2019." (p. 4)</td></tr>
<tr><td colspan="3">Requested compliance with the structural part of the 2018 fiscal CSR: "Strengthen expenditure control, cost effectiveness and adequate budgeting, in particular in the health sector with a focus on the reduction of arrears in hospitals. Improve the financial sustainability of state-owned enterprises, in particular by increasing their overall net income and by reducing debt."</td></tr>
<tr><td colspan="3">Assessment of compliance</td></tr>
<tr><td colspan="3">"The COM is also of the opinion that Portugal has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and thus invites the authorities to accelerate progress." (p. 5)</td></tr>
</table>

# Slovenia

**Subject to the preventive arm**: In 2018, requested compliance with the 2017 fiscal CSR as adopted by the Council on 11 July 2017, notably: "*In 2018, in the light of its fiscal situation and in particular of its debt level, Slovenia is expected to further adjust towards an appropriate MTO. According to the commonly agreed adjustment matrix under the SGP, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure which does not exceed 0,6 %. It would correspond to a structural adjustment of 1 % of GDP.*"

In 2019, requested compliance with the 2018 fiscal CSR as adopted by the Council on 13 July 2018, notably: "*Ensure that the nominal growth rate of net primary government expenditure does not exceed 3,1 % in 2019, corresponding to an annual structural adjustment of 0,65 % of GDP.*"

| | Overall assessment of compliance with the SGP | Detailed assessment of compliance | |
|---|---|---|---|
| | | **for 2018** | **for 2019** |
| **COM Opinion (11/2018)** | *"Overall, while acknowledging the no-policy-change nature of its projections, the COM is of the opinion that the DBP of Slovenia is* ***at risk of non-compliance with the provisions of the SGP****. In particular, the COM projects* ***a risk of significant deviation from the required adjustment towards the MTO for both 2018 and 2019****"(p. 3).* | *"On 11 July 2017, the Council recommended Slovenia to ensure that the nominal growth rate of net primary government expenditure3 does not exceed 0.6 % in 2018, corresponding to an annual structural adjustment of 1.0 % of GDP. At the same time, it was stated that the assessment of the 2018 DBP and subsequent assessment of 2018 budget outcomes will need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of public finances.* ***Following the COM's assessment of the strength of the recovery in Slovenia while giving due consideration to its sustainability challenges, carried out in the context of its opinion on Slovenia's DBP, a fiscal structural effort of at least 0.6 % of GDP is required for 2018, without any additional margin of deviation over one year. This corresponds to a nominal rate of growth of net primary government expenditure not exceeding 1.5 %.*** | *"According to the* ***DBP****, the* ***expenditure benchmark points to a risk of some deviation in 2019 (gap of 0.3 % of GDP) whereas the (recalculated) structural balance indicates a risk of significant deviation (gap of 1.4 % of GDP).*** *At the same time, both pillars point to a risk of significant deviation over 2018 and 2019 taken together. Overall, the* ***DBP is assessed to project a risk of significant deviation*** *from the requirements of the preventive arm* ***in 2019****. That conclusion is confirmed by the* ***COM 2018 autumn forecast****, which* ***indicates a risk of significant deviation for both pillars for 2019 (gaps of 0.6 % and 0.8 % of GDP based on the expenditure benchmark and the structural balance, respectively) and over 2018 and 2019 taken together****" (p. 3).* |

<table>
<tr><td rowspan="5"></td><td rowspan="2"></td><td>Taking that into account in the overall assessment, there is a risk of a significant deviation from the recommended adjustment path towards the MTO in 2018. In particular, the DBP projects an expenditure benchmark gap of 0.9 % of GDP. Based on the structural balance, the gap amounts to 1.3 % of GDP. That conclusion is in line with the COM 2018 autumn forecast which points to a gap of 1.6 % of GDP and 1.4 % of GDP based on the expenditure benchmark and the structural balance, respectively” (p. 2).</td><td></td></tr>
<tr><td colspan="2"><u>Debt rule:</u> “The DBP indicates that government debt-to-GDP ratio will decline from 70.3 % in 2018 to 66.6. % in 2019, similar to COM's projection of 66.3 %. The DBP does not include sufficient information to assess (...) progress towards compliance with the debt reduction benchmark. Based on the COM 2018 autumn forecast, Slovenia is projected to make sufficient progress towards compliance with the debt reduction benchmark in 2018 and the debt reduction benchmark is projected to be met in 2019” (p. 3)</td></tr>
<tr><td colspan="3">Assessment of compliance with the structural part of the 2017 fiscal CSR: “Adopt and implement the Healthcare and Health Insurance Act and the planned reform of long-term care. Ensure the long-term sustainability and adequacy of the pension system, including by increasing the statutory retirement age and by restricting early retirement. Increase the employability of low-skilled and older workers through lifelong learning and activation measures.“</td></tr>
<tr><td colspan="3">Assessment of compliance</td></tr>
<tr><td colspan="3">“The COM is also of the opinion that Slovenia has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and thus invites the authorities to accelerate progress.” [p. 3]</td></tr>
</table>

## Annex: Main legal provisions related to the implementation of the SGP

**Countries in the corrective arm of the SGP**

**Excessive Deficit Procedure under Article 126 of the TFEU (Council Regulation 1467/97: Articles 2 and 3)**

2 (1): The excess of a government deficit over the reference value shall be considered exceptional, in accordance with the second indent of point (a) of Article 126(2) of the Treaty on the Functioning of the European Union (TFEU), when resulting from an unusual event outside the control of the Member State concerned and with a major impact on the financial position of general government, or when resulting from a severe economic downturn.

In addition, the excess over the reference value shall be considered temporary if budgetary forecasts as provided by the Commission indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

2.(1a): When it exceeds the reference value, the ratio of the government debt to gross domestic product (GDP) shall be considered sufficiently diminishing and approaching the reference value at a satisfactory pace in accordance with point (b) of Article 126(2) TFEU if the differential with respect to the reference value has decreased over the previous three years at an average rate of one twentieth per year as a benchmark, based on changes over the last three years for which the data is available.

The requirement under the debt criterion shall also be considered to be fulfilled if the budgetary forecasts of the Commission indicate that the required reduction in the differential will occur over the three-year period encompassing the two years following the final year for which the data is available. For a Member State that is subject to an excessive deficit procedure on 8 November 2011 and for a period of three years from the correction of the excessive deficit, the requirement under the debt criterion shall be considered fulfilled if the Member State concerned makes sufficient progress towards compliance as assessed in the opinion adopted by the Council on its stability or convergence programme.

In implementing the debt ratio adjustment benchmark, account shall be taken of the influence of the cycle on the pace of debt reduction.

2 (2): The Commission and the Council, when assessing and deciding upon the existence of an excessive deficit in accordance with Article 126(3) to (6) TFEU, may consider an excess over the reference value resulting from a severe economic downturn as exceptional in the sense of the second indent of Article 126(2) (a) cif the excess over the reference value results from a negative annual GDP volume growth rate or from an accumulated loss of output during a protracted period of very low annual GDP volume growth relative to its potential.

2 (3): The Commission, when preparing a report under Article 126(3) TFEU, shall take into account all relevant factors as indicated in that Article, in so far as they significantly affect the assessment of compliance with the deficit and debt criteria by the Member State concerned. (...)

The Commission shall give due and express consideration to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with deficit and debt criteria and which the Member State has put forward to the Council and the Commission. In that context, particular consideration shall be given to financial contributions to fostering international solidarity and achieving the policy goals of the Union, the debt incurred in the form of bilateral and multilateral support between Member States in the context of safeguarding financial stability, and the debt related to financial stabilisation operations during major financial disturbances.

2 (4): The Council and the Commission shall make a balanced overall assessment of all the relevant factors, specifically, the extent to which they affect the assessment of compliance with the deficit and/or the debt criteria as aggravating or mitigating factors. When assessing compliance on the basis of the deficit criterion, if the ratio of the government debt to GDP exceeds the reference value, those factors shall be taken into account in the steps leading to the decision on the existence of an excessive deficit provided for in paragraphs 4, 5 and 6 of Article 126 TFEU only if the double condition of the overarching principle — that, before these relevant factors are taken into account, the general government deficit remains close to the reference value and its excess over the reference value is temporary — is fully met.

However, those factors shall be taken into account in the steps leading to the decision on the existence of an excessive deficit when assessing compliance on the basis of the debt criterion. (...)

3 (1): Within two weeks of the adoption by the Commission of a report issued in accordance with Article 126(3), the Economic and Financial Committee shall formulate an opinion in accordance with Article 126(4).

3 (2): Taking fully into account the opinion referred to in paragraph 1, the Commission, if it considers that an excessive deficit exists, shall address an opinion and a proposal to the Council in accordance with paragraphs 5 and 6 of Article 126 TFEU and shall inform the European Parliament thereof.

3 (3): The Council shall decide on the existence of an excessive deficit in accordance with Article 126(6) TFEU , as a rule within four months of the reporting dates established in Article 3(2) and (3) of Regulation (EC) No 479/2009 *[Remark by EGOV: these dates are 1 April and 1 October, i.e. the Council shall decide within 4 months counting from 1 October]*. When it decides that an excessive deficit exists, the Council shall at the same time make recommendations to the Member State concerned in accordance with Article 126(7) TFEU.

3 (4): The Council recommendation made in accordance with Article 126(7) TFEU shall establish a maximum deadline of six months for effective action to be taken by the Member State concerned. When warranted by the seriousness of the situation, the deadline for effective action may be three months. The Council recommendation shall also establish a deadline for the correction of the excessive deficit, which shall be completed in the year following its identification unless there are special circumstances. In its recommendation, the Council shall request that the Member State achieve annual budgetary targets which, on the basis of the forecast underpinning the recommendation, are consistent with a minimum annual improvement of at least 0,5 % of GDP as a benchmark, in its cyclically adjusted balance net of one-off and temporary measures, in order to ensure the correction of the excessive deficit within the deadline set in the recommendation.

3 (4a): Within the deadline provided for in paragraph 4, the Member State concerned shall report to the Council and the Commission on action taken in response to the Council's recommendation under Article 126(7) TFEU. The report shall include the targets for government expenditure and revenue and for the discretionary measures on both the expenditure and the revenue side consistent with the Council's recommendation, as well as information on the measures taken and the nature of those envisaged to achieve the targets. The Member State shall make the report public.

**Issuance of revised Council recommendations**

**Council Regulation 1467/97: Articles 3, 4 and 5**

3 (5): If effective action has been taken in compliance with a recommendation under Article 126(7) TFEU and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that recommendation, the Council may decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) TFEU. The revised recommendation, taking into account the relevant factors referred to in Article 2(3) of this Regulation may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule. The Council shall assess the existence of unexpected adverse economic events with major unfavourable consequences for government finances against the economic forecasts in its recommendation. In the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) TFEU provided that this does not endanger fiscal sustainability in the medium term.

3(4): The Council recommendation made in accordance with Article 126(7) TFEU shall establish a maximum deadline of six months for effective action to be taken by the Member State concerned. When warranted by the seriousness of the situation, the deadline for effective action may be three months. The Council recommendation shall also establish a deadline for the correction of the excessive deficit, which shall be completed in the year following its identification unless there are special circumstances. In its recommendation, the Council shall request that the Member State achieve annual budgetary targets which, on the basis of the forecast underpinning the recommendation, are consistent with a minimum annual improvement of at least 0,5 % of GDP as a benchmark, in its cyclically adjusted balance net of one-off and temporary measures, in order to ensure the correction of the excessive deficit within the deadline set in the recommendation.

4 (1): Any decision by the Council under Article 126(8) TFEU to make public its recommendations where it is established that no effective action has been taken, shall be taken immediately after the expiry of the deadline set in accordance with Article 3(4) of this Regulation.

4(2): The Council, when considering whether effective action has been taken in response to its recommendations made in accordance with Article 126(7) TFEU, shall base its decision on the report submitted by the Member State concerned in accordance with Article 3(4a) of this Regulation and its implementation, as well as on any other publicly announced decisions by the government of the Member State concerned. Where the Council establishes, in accordance with Article 126(8) TFEU, that the Member State concerned has failed to take effective action, it shall report to the European Council accordingly.

5 (1): Any Council decision to give notice to the participating Member State concerned to take measures for the deficit reduction in accordance with Article 126(9) TFEU shall be taken within two months of the Council decision under Article 126(8) TFEU establishing that no effective action has been taken. In the notice, the Council shall request that the Member State achieve annual budgetary targets which, on the basis of the forecast underpinning the notice, are consistent with a minimum annual improvement of at least 0,5 % of GDP as a benchmark, in its cyclically adjusted balance net of one-off and temporary measures, in order to ensure the correction of the excessive deficit within the deadline set in the notice. The Council shall also indicate measures conducive to the achievement of those targets.

5 (1a): Following a Council notice under Article 126(9) TFEU, the Member State concerned shall report to the Council and the Commission on action taken in response thereto. The report shall include the targets for the government expenditure and revenue and for the discretionary measures on both the expenditure and the revenue side, as well as information on the actions being taken in response to the specific Council recommendations so as to allow the Council to take, if necessary, a decision in accordance with Article 6(2) of this Regulation. The Member State shall make the report public.

5 (2): If effective action has been taken in compliance with a notice under Article 126(9) TFEU and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that notice, the Council may decide, on a recommendation from the Commission, to adopt a revised notice under Article 126(9) TFEU. The revised notice, taking into account the relevant factors referred to in Article 2(3) of this Regulation may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule. The Council shall assess the existence of unexpected adverse economic events with major unfavourable consequences for government finances against the economic forecasts in its notice. In the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide, on a recommendation from the Commission, to adopt a revised notice under Article 126(9) TFEU, on condition that this does not endanger fiscal sustainability in the medium term.

**Sanctions (Council Regulation 1467/97: Articles 11 and 12)**

11: Whenever the Council decides under Article 126(11) TFEU to impose sanctions on a participating Member State, a fine shall, as a rule, be required. The Council may decide to supplement such a fine by the other measures provided for in Article 126(11) TFEU.

12 (1): The amount of the fine shall comprise a fixed component equal to 0,2 % of GDP, and a variable component. The variable component shall amount to one tenth of the absolute value of the difference between the balance as a percentage of GDP in the preceding year and either the reference value for government balance or, if non-compliance with budgetary discipline includes the debt criterion, the government balance as a percentage of GDP that should have been achieved in the same year according to the notice issued under Article 126(9) TFEU.

12 (2): In each year following that in which a fine is imposed, until the decision on the existence of an excessive deficit is abrogated, the Council shall assess whether the participating Member State concerned has taken effective action in response to the Council notice in accordance with Article 126(9) TFEU. In this annual assessment the Council shall decide, in accordance

with Article 126(11) TFEU, to intensify the sanctions, unless the participating Member State concerned has complied with the Council's notice. If the Council decides to impose an additional fine, it shall be calculated in the same way as for the variable component of the fine referred to in paragraph 1.

12 (3): No single fine referred to in paragraphs 1 and 2 shall exceed 0,5 % of GDP.

**Council Regulation 1173/2011 [euro area]: Articles 5 and 11**

5(1) If the Council, acting under Article 126(6) TFEU, decides that an excessive deficit exists in a Member State which has lodged an interest-bearing deposit with the Commission in accordance with Article 4(1) of this Regulation, or where the Commission has identified particularly serious non-compliance with the budgetary policy obligations laid down in the SGP, the Commission shall, within 20 days of adoption of the Council's decision, recommend that the Council, by a further decision, require the Member State concerned to lodge with the Commission a non-interest-bearing deposit amounting to 0,2 % of its GDP in the preceding year.

5(2) The decision requiring a lodgement shall be deemed to be adopted by the Council unless it decides by a qualified majority to reject the Commission's recommendation within 10 days of the Commission's adoption thereof.

5(3) The Council, acting by a qualified majority, may amend the Commission's recommendation and adopt the text so amended as a Council decision.

5(4) The Commission may, on grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned addressed to the Commission within 10 days of adoption of the Council's decision under Article 126(6) TFEU referred to in paragraph 1, recommend that the Council reduce the amount of the non-interest-bearing deposit or cancel it.

5(5) The deposit shall be lodged with the Commission. If the Member State has lodged an interest-bearing deposit with the Commission in accordance with Article 4, that interest-bearing deposit shall be converted to a non-interest-bearing deposit.

If the amount of an interest-bearing deposit lodged in accordance with Article 4 and of the interest accrued thereon exceeds the amount of the non-interest-bearing deposit to be lodged under paragraph 1 of this Article, the excess shall be returned to the Member State.

If the amount of the non-interest-bearing deposit exceeds the amount of an interest-bearing deposit lodged in accordance with Article 4 and the interest accrued thereon, the Member State shall make up the shortfall when it lodges the non-interest-bearing deposit.

Article 11

11(1): If the Council, acting under Article 126(8) TFEU, decides that a Member State has not taken effective action to correct its excessive deficit, the Commission shall, within 20 days of that decision, recommend that the Council, by a further decision, impose a fine, amounting to 0,2 % of the Member State's GDP in the preceding year.

11(2): The decision imposing a fine shall be deemed to be adopted by the Council unless it decides by a qualified majority to reject the Commission's recommendation within 10 days of the Commission's adoption thereof.

11(3): The Council, acting by a qualified majority, may amend the Commission's recommendation and adopt the text so amended as a Council decision.

11(4): The Commission may, on grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned addressed to the Commission within 10 days of adoption of the Council's decision under Article 126(8) TFEU referred to in paragraph 1, recommend that the Council reduce the amount of the fine or cancel it.

11(5): If the Member State has lodged a non-interest-bearing deposit with the Commission in accordance with Article 5, the non-interest-bearing deposit shall be converted into the fine. If the amount of a non-interest-bearing deposit lodged in accordance with Article 5 exceeds the amount of the fine, the excess shall be returned to the Member State.

If the amount of the fine exceeds the amount of a non-interest-bearing deposit lodged in accordance with Article 5, or if no non-interest-bearing deposit has been lodged, the Member State shall make up the shortfall when it pays the fine.

**Countries in the preventive arm of the SGP**

**Surveillance of Stability Programmes under Article 121(2) of the TFEU (Regulation 1466/97: Articles 5 and 6)**

Art. 5(2) The Council and the Commission shall examine the stability programme within at most 3 months of its submission. The Council, on a recommendation from the Commission and after consulting the Economic and Financial Committee, shall, if necessary, adopt an opinion on the programme. Where the Council, in accordance with Article 121 TFEU, considers that the objectives and the content of the programme should be strengthened with particular reference to the adjustment path towards the medium-term budgetary objective, the Council shall in its opinion invite the Member State concerned to adjust its programme.

Art. 6

1. As part of multilateral surveillance in accordance with Article 121(3) TFEU, the Council and the Commission shall monitor the implementation of stability programmes, on the basis of information provided by participating Member States and of assessments by the Commission and the Economic and Financial Committee, in particular with a view to identifying actual or expected significant divergences of the budgetary position from the medium-term budgetary objective, or from the appropriate adjustment path towards it.

2. In the event of a significant observed deviation from the adjustment path towards the medium-term budgetary objective referred to in the third subparagraph of Article 5(1) of this Regulation, and in order to prevent the occurrence of an excessive deficit, the Commission shall address a warning to the Member State concerned in accordance with Article 121(4) TFEU.

The Council shall, within 1 month of the date of adoption of the warning referred to in the first subparagraph, examine the situation and adopt a recommendation for the necessary policy measures, on the basis of a Commission recommendation, based on Article 121(4) TFEU. The recommendation shall set a deadline of no more than 5 months for addressing the deviation. The deadline shall be reduced to 3 months if the Commission, in its warning, considers that the situation is particularly serious and warrants urgent action. The Council, on a proposal from the Commission, shall make the recommendation public.

Within the deadline set by the Council in the recommendation under Article 121(4) TFEU, the Member State concerned shall report to the Council on action taken in response to the recommendation.

If the Member State concerned fails to take appropriate action within the deadline specified in a Council recommendation under the second subparagraph, the Commission shall immediately recommend to the Council to adopt, by qualified majority, a decision establishing that no effective action has been taken. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

In the event that the Council does not adopt the decision on the Commission recommendation that no effective action has been taken, and failure to take appropriate action on the part of the Member State concerned persists, the Commission, after 1 month from its earlier recommendation, shall recommend to the Council to adopt the decision establishing that no effective action has been taken. The decision shall be deemed to be adopted by the Council unless it decides, by simple majority, to reject the recommendation within 10 days of its adoption by the Commission. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

When taking the decision on non-compliance referred to in the fourth and fifth subparagraphs, only members of the Council representing participating Member States shall vote and the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.

The Council shall submit a formal report to the European Council on the decisions taken accordingly.

3. A deviation from the medium-term budgetary objective or from the appropriate adjustment path towards it shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures, as defined in Article 5(1).

The assessment of whether the deviation is significant shall, in particular, include the following criteria:

(a) for a Member State that has not reached the medium-term budgetary objective, when assessing the change in the structural balance, whether the deviation is at least 0,5 % of GDP in a single year or at least 0,25 % of GDP on average per year in 2 consecutive years;

(b) when assessing expenditure developments net of discretionary revenue measures, whether the deviation has a total impact on the government balance of at least 0,5 % of GDP in a single year or cumulatively in 2 consecutive years.

The deviation of expenditure developments shall not be considered significant if the Member State concerned has overachieved the medium-term budgetary objective, taking into account the possibility of significant revenue windfalls and the budgetary plans laid out in the stability programme do not jeopardise that objective over the programme period.

Similarly, the deviation may be left out of consideration when it results from an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government or in case of severe economic downturn for the euro area or the Union as a whole, provided that this does not endanger fiscal sustainability in the medium-term.

**Issuance of sanctions (Council Regulation 1173/2011 [euro area]: Article 4)**

1. If the Council adopts a decision establishing that a Member State failed to take action in response to the Council recommendation referred to in the second subparagraph of Article 6(2) of Regulation (EC) No 1466/97, the Commission shall, within 20 days of adoption of the Council's decision, recommend that the Council, by a further decision, require the Member State in question to lodge with the Commission an interest-bearing deposit amounting to 0,2 % of its GDP in the preceding year.

2. The decision requiring a lodgement shall be deemed to be adopted by the Council unless it decides by a qualified majority to reject the Commission's recommendation within 10 days of the Commission's adoption thereof.

3. The Council, acting by a qualified majority, may amend the Commission's recommendation and adopt the text so amended as a Council decision.

4. The Commission may, following a reasoned request by the Member State concerned addressed to the Commission within 10 days of adoption of the Council's decision establishing that a Member State failed to take action referred to in paragraph 1, recommend that the Council reduce the amount of the interest-bearing deposit or cancel it.

5. The interest-bearing deposit shall bear an interest rate reflecting the Commission's credit risk and the relevant investment period.

6. If the situation giving rise to the Council's recommendation referred to in the second subparagraph of Article 6(2) of Regulation (EC) No 1466/97 no longer exists, the Council, on the basis of a further recommendation from the Commission, shall decide that the deposit and the interest accrued thereon be returned to the Member State concerned. The Council may, acting by a qualified majority, amend the Commission's further recommendation.