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IN-DEPTH ANALYSIS

Thematic overview: Member States whose 2016 Draft Budgetary Plans were assessed to be "at risk of non-compliance" with the Stability and Growth Pact

This briefing gives an overview of the recent European Commission (COM) assessments of five Member States (Spain, Portugal, Italy, Lithuania and Austria) whose 2016 Draft Budgetary Plans (DBPs) were considered to be "at risk of non-compliance" with the current obligations under the Stability and Growth Pact (SGP). This briefing will be updated as further assessments by the COM become available.

On 17 November 2015, the COM concluded as part of its opinions on the 2016 DBPs that four Euro Area Member States were at "*risk of non-compliance*" with the obligations under the SGP, namely **Spain** under the EDP and **Italy**, **Lithuania** and **Austria** in the preventive arm of the SGP. On 5 February 2016, the 2016 DBP of **Portugal** was also assessed to be at risk of non-compliance with the latest Council recommendation. Since then the COM has been in close contacts with the concerned Member States.

While the other Euro Area Member States' budgetary plans were not included in the category of "*risk of non-compliance*" by the COM in its opinions on the 2016 DBPs, some of them were assessed to have some deviations or risks and were therefore "*broadly compliant*" with their obligations under the SGP (see Communication from the COM and separate EGOV note).

This briefing focuses **only on the above mentioned five Member States** (whose 2016 DBPs were assessed to be at risk of non-compliance) in order to give an overview of how the assessments by the COM of the budgetary policies of these Member States have evolved since the start of the current European Semester cycle (see Annex 1 for Member States' summary tables).

On 18 May 2016, as part of the spring 2016 European Semester package, the COM published its **recommendations for Council opinions on the 2016 Stability Programmes** of the Euro Area Member States (except for Greece which is subject to a macro-economic adjustment programme). These draft Council opinions **form part of the 2016 Country Specific Recommendations** (CSRs), in particular of the first recommendation for each of these Member States, and are issued in accordance with Article 121(2) of the TFEU ("preventive arm of the SGP"). On 26 May 2016, the underlying assessments by the DG ECFIN staff were published.

Some countries' (Belgium, Cyprus, Croatia, France, Slovenia and Romania) 2016 Stability Programmes were at this occasion assessed to be "*at risk of non-compliance*" with their obligations under the SGP, even though this was not the case in November 2015.

The COM also published on 18 May 2016 reports under Article 126(3) of the TFEU assessing the **potential breach of the debt criterion by some Member States**. This was the case for Italy covered in this briefing.

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The 2016 European Semester package did not include **assessments under the Excessive Deficit Procedure (EDP)** based on Article 126 of the TFEU ("corrective arm of the SGP") for Spain and Portugal. The COM indicated that the assessments under the EDP for these two Member States were postponed until early July 2016. However, the COM did already indicate its willingness (see CSR 1 for both countries) to give an extension of one year to correct their excessive deficits. A final decision to give an extra year to correct their excessive deficit will be taken in July 2016.

The **main procedural options to extend a dead-line to correct an excessive deficit** are: establishing that "effective action" has been taken by the Member State concerned under Article 126(7) of TFEU (and in accordance with Article 3(5) of Regulation 1467/97) or following a Council decision under Article 126(8) of the TFEU that "no effective action" has been taken, the Council would adopt a decision under 126(9) (and in accordance with Article 5 of Regulation 1467/97) to give notice to the Member State concerned to take measures for the deficit reduction in accordance with Article 126(9) TFEU. For an overview of the main legal provisions see Annex 2.

Implementation of the EDP for Spain and Portugal

Spain has 2016 as deadline for correcting its excessive deficit (Council recommendation of June 2013).

In the COM **opinion on the 2016 DBP**, Spain was assessed not to meet its nominal fiscal targets both in 2015 in 2016 and not to have taken effective action in structural terms each of these years.

On 9 March 2016, the COM noted in a **separate recommendation to Spain** that the cumulative structural effort between 2013 and 2015 had been **0.8% of GDP, while the Council had requested a 2.7% of GDP** effort in its latest recommendation under the corrective arm. For 2016, the COM noted that the **fiscal effort of 1.5% of GDP recommended by the Council was not expected to be met since on the basis of any COM forecast**:

- the unadjusted change of the structural balance was forecast to be unchanged;
- the structural balance change adjusted by potential output revisions and revenue shortfalls was forecast to deteriorate by 0.2% of GDP;
- The bottom-up analysis of measures taken indicated that no fiscal effort was projected to be delivered by Spain in 2016.

On 18 May 2016 **the COM assessed, as part of its recommendation (Recital 5) for a Council opinion on the 2016 Stability Programme**, that Spain missed the required fiscal effort and headline targets in 2014 and 2015. According to the ECFIN staff working document of 26 May 2016: *"In 2015, Spain achieved a headline deficit of 5.1% of GDP, exceeding the target under the EDP by 0.9% of GDP. Moreover, the required fiscal effort has not been delivered either on the basis of all metrics (...). The planned improvement in the structural balance in 2016 falls short of the effort required by the Council in the latest EDP recommendation, on the basis of both the unadjusted and the adjusted changes in the structural balance. Based on bottom-up method, the effort is also below the requirement in 2016. The same conclusion could be drawn on the basis of the Commission 2016 spring forecast."* (p. 22)

Thus, according to the current COM/ECFIN assessment, Spain does not seem to comply with the obligations stemming from the EDP-recommendation adopted by the Council in June 2013.

Portugal was to correct its excessive deficit by 2015 (based on the Council recommendation of June 2013).

The COM assessed in its **2016 DBP opinion** of 5 February 2016 that the structural adjustment planned by the Portuguese authorities for 2016 amounts to 0.1%-0.2% of GDP, so that the estimated deviation from the recommended structural adjustment of 0.6% of GDP would be below 0.5% of GDP and therefore not significant; nevertheless, the COM assessed that the gap might eventually get bigger than 0.5% of GDP, notably due to implementation risks. It therefore concluded that there was a risk of a significant deviation from the MTO.

On 18 May 2016 **the COM assessed, as part of its recommendation (Recital 5) for a Council opinion** on the 2016 Stability Programme, that Portugal did not correct the excessive deficit by the 2015 deadline and did not deliver the fiscal effort recommended by the Council. According to the ECFIN staff working document of 26 May 2016 (p. 14): "*In 2015, Portugal achieved a headline deficit of 4.4% of GDP, which was above the recommended target of 2.5% of GDP and above the Treaty reference value of 3% of GDP. Therefore, Portugal did not correct its excessive deficit by the 2015 deadline recommended by the Council. The fiscal effort indicators also point to a shortfall in the structural effort, based on the change in both the unadjusted and adjusted structural balance in 2015 and in cumulative terms over 2013-2015, as well as on the permanent consolidation measures taken under the programme and thereafter.*" (p. 23)

Thus, according to the current COM/ECFIN assessment, Portugal does not seem to comply with the obligations stemming from the EDP-recommendation adopted by the Council in June 2013. However, on 18 May 2016, the COM recommended (as part of the CSRs) to the Council to postpone the deadline for correction of the excessive deficit by one year to 2017, while announcing that it will come back to this procedure in early July 2016.

Implementation of the preventive arm for Italy, Lithuania and Austria

The 2016 DBPs for Italy, Lithuania and Austria were assessed in November 2015 to be at risk of non-compliance with the provisions of the SGP due to a significant gap to the required adjustment path towards their respective MTOs in 2016: these gaps were assessed to amount to 0.6% of GDP in Italy and Austria and 1.2% of GDP in Lithuania.

According to the **spring 2016 Semester Package**, the COM assessment, as regards these three Member States has evolved as follows:

Italy: The COM concluded in its recommendation for a Council opinion on the 2016 SP that "*Overall, based on its assessment of the 2016 stability programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that* ***Italy is at risk of non-compliance with the provisions of the SGP****. The Commission will reassess Italy's compliance with the required adjustment towards the medium-term budgetary objective based on its 2016 autumn forecast as further information on Italy's resumption of the adjustment path towards the MTO for 2017 becomes available, including the 2017 Draft Budgetary Plan*". (p. 5)

The COM also published a report in accordance with Article 126(3) of the Treaty as Italy did not make sufficient progress towards compliance with the debt reduction benchmark in 2015 and projections based on the COM 2016 spring forecast expect compliance with the debt rule only by 2020. The COM came to the conclusion that taking into account all the relevant factors, "*the debt* *criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as currently complied with. The Commission will revise its assessment of the relevant factors in a new report under Article 126(3) TFEU, as further information on the credibility and appropriateness of Italy's resumption of the adjustment path towards the MTO for 2017 becomes available.*" (pp. 21-22)

Finally, according to the DG ECFIN staff assessment, Italy "*is not expected to comply with the debt rule in 2016 based on either the (recalculated) government plans or the COM 2016 spring forecast*." Yet, "*Italy is broadly compliant with the required adjustment path towards the MTO in both 2015 and 2016 but rigorous implementation of the 2016 budget remains essential.*" However, "*given the uncertainties hindering the possibility at this stage to fully assess Italy's plans to resume of the adjustment path towards the MTO beyond 2016, the Commission will review its assessment of the relevant factors in a new report under Article 126(3) TFEU based on the Commission 2016 autumn forecast...*" (p. 28)

Lithuania: According to its recommendation for a Council opinion on the 2016 Stability Programme, the COM has updated its assessment as follows: "*Based on its assessment of the stability programme and taking into account the COM 2016 spring forecast* ***Lithuania is expected to comply with the provisions of the SGP***." (pp. 3-4). Similarly, the DG ECFIN staff assessment concludes that "***Lithuania plans to remain at the MTO over the period 2016-2019.*** [...] ***Lithuania is expected to be in line with the provisions of the SGP in both 2016 and 2017.***" (p. 18)

Austria: The COM concluded in its recommendation for a Council opinion on the 2016 Stability Programme that "*Based on its assessment of the stability programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that* ***there is a risk that Austria will not comply with the provisions of the SGP****. Therefore further measures will be needed to ensure compliance in 2016 and 2017.*" At the same time, the COM expects Austria to "*comply with the transitional debt rule in 2016 and, following the end of the transition period, the debt reduction benchmark in 2017.*" (p. 4)

According to the DG ECFIN staff assessment, Austria "*will make sufficient progress towards compliance with the debt criterion in 2016 while the debt benchmark is expected to be met in 2017*". As regards the adjustment path towards the MTO, based on the COM 2016 spring forecast, "*there is a risk of some deviation in 2016 and of significant deviation in 2017* [...] *Nevertheless, if the allowance linked to the budgetary impact of the exceptional inflow of refugees possibly granted for 2016 was taken into account,* ***the adjustment path towards the MTO could be considered as in line with the provisions of the Pact in 2016 on the basis of an overall assessment****, while the deviation to be expected in 2017 would no longer be significant*." (p. 17)

Box 1: Budgetary impact of the refugee crisis

The Eurogroup of 23 November 2015 agreed with the COM that the **SGP rules provide for sufficient flexibility** to address the budgetary implications of the country-specific developments, such as the refugee inflow in certain Member States and noted that that Austria, Belgium, Finland, Germany and Italy have submitted information on the costs associated with refugee inflows. It also took note that the COM will take into account duly justified additional expenditure related to this crisis when making its *ex post* assessments of compliance with the SGP. Recalled the ongoing discussions among the Member States and the COM on a commonly agreed interpretation on the flexibility within the SGP.

Recital 5 of the COM recommendation for a Council opinion on the 2016 Stability Programme of Austria and Recital 9 of the COM recommendation for a Council opinion on the 2016 Stability Programme of Italy: when the COM assesses Member States' compliance with their obligations under the SGP, Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 allow catering for additional expenditure linked to the refugee crisis. The inflow of refugees as well as the severity of the terrorist threats are exceptional events, their impact on (Austria's and Italy's) public finances is significant and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the medium-term budgetary objective. **Therefore, the required adjustment towards the medium-term budgetary objective for 2015 has been reduced to take into account additional refugee-related costs. Regarding 2016, a final assessment, including on the eligible amounts, will be made in spring 2017 on the basis of observed data as provided by Member States' authorities.**

Next steps

The COM recommendations for Council opinions on the 2016 Stability Programmes will be discussed as part of the CSR package by the Eurogroup and ECOFIN-Council before they are endorsed by the European Council in June 2016 and finally adopted by the Council in July 2016. The COM reports under Article 126(3) of the TFEU assessing the potential breach of the debt criterion by some Member States need to be discussed by the Economic and Financial Committee in early June 2016. The COM also announced that in line with its duty to monitor the implementation of the EDP under Article 126 of the TFEU, it will come back to the situation as regards Spain and Portugal in early July 2016. The ECON Committee is planning an Economic Dialogue with the Commission on the spring 2016 Semester package on 14 June 2016.

Annex 1: Comparison of the COM autumn 2015 and spring 2016 assessments

<table>
<tr><td colspan="7">SPAIN</td></tr>
<tr><td colspan="7"><u>Subject to EDP</u> under Article 126 of TFEU
<u>Objective</u>: Correction of excessive deficit by 2016
based on the <u>Council decision from June 2013</u> under Article 126(7) of the TFEU</td></tr>
<tr><td colspan="7">Commission assessments on the compliance with nominal target and/or fiscal effort
as requested by latest Council EDP- recommendations under Article 126 of the TFEU</td></tr>
<tr><td colspan="3"><u>COM Opinion</u> on 2016 DBP
of 16 November 2015
(<u>Regulation 473/2013</u>)</td><td colspan="3"><u>COM Recommendation</u>
regarding measures to ensure a timely correction of the excessive deficit of 8 March 2016
(<u>Regulation 473/2013</u>)</td><td><u>COM assessment</u>
included in the recommendation for a Council opinion on the 2016 Stability Programme
of 18 May 2016</td></tr>
<tr><td>Overall assessment</td><td>Assessment of efforts undertaken in 2015</td><td>Assessment of efforts undertaken in 2016</td><td>Overall assessment</td><td>Assessment of efforts undertaken in 2015</td><td>Assessment of efforts undertaken in 2016</td><td>Assessments</td></tr>
<tr><td>"Overall, the Commission is of the opinion that the Draft Budgetary Plan of Spain, which is currently under the corrective arm, is at risk of non-compliance with the provisions of the SGP". (p. 5).

"In light of the compliance risks highlighted above and the fact that the Draft Budgetary Plan does not include up-to-date and</td><td><u>Nominal target:</u> "The Draft Budgetary Plan expects the 2015 general government deficit to decline from 5.8% of GDP in 2014 (including bank support of 0.1% of GDP) to 4.2% of GDP in 2015 in line with the recommended EDP targets. [...] The ad-hoc Commission forecast foresees a deficit of 4.5% of GDP in 2015, 0.3 pp. higher than in the Draft Budgetary Plan". (p. 3)</td><td><u>Nominal target</u>: "For 2016, the Draft Budgetary Plan targets a general government deficit of 2.8% of GDP, also in line with the recommended EDP target. [...]Regarding 2016, the ad-hoc Commission forecasts a deficit of 3.5% of GDP, 0.7 pp. higher than the target in the Draft Budgetary Plan, and 0.5% of GDP above</td><td>"The projected deficit above the 3% of GDP reference value in 2016 according to the Commission 2016 winter forecast points to a risk of non-compliance with the deadline to correct the excessive deficit." (Recital 9)</td><td>"Based on the COM 2016 winter forecast, the cumulative change in the structural balance over 2013-2015 amounts to 0.8% of GDP, clearly below the effort recommended by the Council (2.7% of GDP over 2013-2015). Corrected for revisions to potential GDP growth estimates and revenue shortfalls, the change in the structural balance</td><td>"In 2016, the unadjusted structural balance is forecast to remain unchanged, while the adjusted balance is expected to deteriorate by 0.2% of GDP. Hence, both the unadjusted and adjusted changes in the structural balance are expected to fall short of what was recommended by the Council. Also based on the bottom-up method, no fiscal effort is projected to</td><td>No recent COM assessment provided on the compliance with the latest EDP-recommendation. Last assessment was published in <u>November 2013</u> under the EDP Regulation <u>1467/97</u>,

The COM indicated that it will revise its assessment in early July 2016.

See below the COM assessment under Article</td></tr>
</table>

*fully specified measures for regional governments, **the national authorities are invited to submit an updated Draft Budgetary Plan** including fully specified regional measures, as soon as possible. The new plan should take into account the present Opinion in order to fully comply with the SGP". (p. 6).*	<u>*Top down assessment:*</u> *"The 2013 EDP recommendation requires Spain to achieve an improvement in the structural balance of 0.8 pp. of GDP in 2015. **However, the Draft Budgetary Plan foresees an improvement of 0.2 pp. of the (recalculated) structural balance**, whereas **the ad-hoc Commission forecast points to deterioration by 0.5 pp.,** notably due to the significant different appraisal of one-off operations in line with the Commission classification. When correcting the change in the structural balance for revisions in the potential output growth and unexpected revenue windfalls/shortfalls, the gap widens further to 1½ pps. compared to the recommended effort". (p 4)* <u>*Bottom up assessment:*</u> *"Based on a bottom-up assessment, **the additional net consolidation measures fall short by 1.4 pps. of what was deemed necessary to reach the structural targets** spelled*	***the 3% of GDP reference value**". (p. 3)* <u>*Top down assessment*</u>*: "Regarding 2016, **the (recalculated) change in the structural balance for 2016 (0% of GDP) in the Draft Budgetary Plan is significantly below the 1.2% of GDP effort recommended by the Council.** In turn, **the ad-hoc Commission forecast projects the structural deficit to deteriorate by 0.2% of GDP.** The projected structural balance corrected for the change in the estimated potential growth and for revenue windfalls/shortfalls unexpected at the time of the 2013 EDP recommendation points in the same direction. **On a cumulative basis over 2013-2016, the shortfall with respect to the effort that was recommended by the Council amounts to 3.1 pps.** when measured against the uncorrected change in the structural balance, and to 4.4 pps. when referring to the corrected indicator". (pp. 4-5)*		*amounts to -0.2% of GDP over 2013-2015, also falling short of the recommended structural effort. Furthermore, Spain is not expected to have met the required fiscal effort based on the bottom-up method over 2013-2015. In 2016, the unadjusted structural balance is forecast to remain unchanged, while the adjusted balance is expected to deteriorate by 0.2% of GDP. Hence, both the unadjusted and adjusted changes in the structural balance are expected to fall short of what was recommended by the Council. Also based on the bottom-up method, no fiscal effort is projected to be delivered by Spain in 2016, which would imply falling significantly short of the 1.5% of GDP effort deemed necessary to achieve the target (Recital 8)*	*be delivered by **Spain in 2016, which would imply falling significantly short of the 1.5% of GDP effort deemed necessary to achieve the target**." (Recital 8)*	121(2) of the TFEU and Regulation 1466/97 and the DG ECFIN staff assessment on the 2016 Stability Programme of Spain.

	out in the 2013 EDP recommendation for 2015". (p. 4)	*<u>Bottom up assessment:</u> "the bottom-up estimate of the fiscal effort in 2016 is **negative (-0.2% of GDP), thus below the 1.5% of GDP of additional measures deemed necessary in 2016** in the 2013 EDP recommendation **to reach the recommended structural target**, leading to a shortfall of 3.8 pps. in cumulative terms over 2013-2016". (p. 5)*				

<u>*Assessment undertaken as part of the Country Specific Recommendations under Article 121(2) of TFEU*</u>

<u>COM Opinion</u> on 2016 DBP of 16 November 2015 (<u>Regulation 473/2013</u>)	**<u>COM assessment</u> included in the recommendation for a Council opinion on the 2016 Stability Programme of 18 May 2016 (<u>Regulation 1466/97</u>)**
*"The Commission is also of the opinion that Spain has made **some progress towards compliance with regard to the country-specific recommendations** issued by the Council in the context of the 2015 European Semester relating to fiscal governance and invites the authorities to make further progress". (pp. 5-6)*	"*In its 2016 stability programme, Spain plans to achieve headline deficit targets of 3.6% of GDP in 2016 and 2.9% of GDP in 2017. The excessive deficit is thus planned to be corrected one year later than currently recommended by the Council, **the fiscal effort and headline targets having been missed in 2014 and 2015**. These targets assume the full implementation of 0.4% of GDP in permanent savings at central and regional government level announced in response to the Autonomous Commission recommendation of 9 March 2016. The deficit is planned to continue declining thereafter, to 1.6% of GDP in 2019. However, the medium-term objective of a balanced budgetary position in structural terms is not planned to be reached within the time horizon of the stability programme. In particular, the recalculated structural balance is projected to improve only marginally in 2016 and 2017 to around -2½% of GDP, and decline slowly to reach -2¾% of GDP in 2019. The government debt-to-GDP ratio declined only marginally in 2015 to 99.2% of GDP and is expected to decline slightly in 2016 and 2017 and more decisively in the two following years, to 96% of GDP in 2019, as the primary balance turns into a surplus. The macroeconomic scenario underpinning these budgetary projections is plausible for 2016 and 2017 and somewhat optimistic thereafter; it has been endorsed by Spain's Independent Fiscal Institution (AIReF). The Commission 2016 spring forecast projects the deficit at 3.9% of GDP in 2016 and 3.1% of GDP in 2017, above the headline targets in the stability programme. **Spain is thus not projected to correct the excessive deficit by 2016 as recommended by the Council.** Risks to the deficit targets in the programme largely stem from uncertainties surrounding the implementation of the savings from the March/April 2016 measures. As the structural deficit is projected to slightly increase in both years, **the fiscal effort is not in line with the***

	requirements of the Stability and Growth Pact. *Based on its assessment of the stability programme and taking into account the Commission's 2016 spring forecast* ***, the Council is of the opinion that there is a risk that Spain will not comply with the provisions of the SGP***. *Therefore, further measures are needed to ensure compliance in 2016 and 2017*." *(Recital 5).*

[DG ECFIN staff assessment (on the compliance with nominal target and/or fiscal effort) of 28 May 2016 of the 2016 SP of Spain](#)

"The general government deficit reached 5.1% of GDP in 2015. **This is 0.9% of GDP above the EDP headline deficit target for that year as well as the target set in the 2015 Stability Programme *and confirmed in last autumn's 2016 Draft Budgetary Plan.*** *The reason behind the slippage is twofold. First, the cuts in the personal income tax, and, to a lesser extent, in the corporate income tax implied a revenue loss of around 0.4 % of GDP, more than offsetting the impact of other revenue-increasing measures. Second, expenditure slippages at both central and regional government level more than offset the impact of deficit-reducing expenditure trends, i.e. another year of virtually stable social transfers and a fall in interest expenditure of more than 0.3% of GDP" (page 6)*

"In addition, while the June 2013 EDP recommendation required Spain to achieve an improvement in the structural balance of 0.8% of GDP in 2015, the Commission estimates based on the 2016 spring forecast point to a structural balance deterioration of 1% of GDP. ***In cumulative terms over 2013-2015, the unadjusted change in the structural balance stands at 0.6% of GDP, which is significantly below the cumulative recommended structural improvement of 2.7% of GDP***. *This warrants a careful analysis.*

The adjusted change in the structural balance amounts to -0.7% of GDP in 2015, leading to a gap of 1.5% of GDP vis-à-vis the recommended structural improvement of 0.8% of GDP. ***In cumulative terms over 2013-2015, the adjusted change in the structural balance equals -0.2% of GDP, which is again well below the recommended cumulative structural improvement of 2.7% of GDP.***
The fiscal effort based on the bottom-up method yields -0.5% of GDP in 2015, well below what is deemed necessary to comply with the EDP recommendation (1% of GDP), and to no effort over the 2013-2015 period, against a recommended cumulative fiscal effort of 3% of GDP.
For 2016, i.e. the deadline for the correction of the excessive deficit set out in the June 2013 recommendation, the headline deficit is forecast to reach 3.9%, well above the deficit reference value of the Treaty and the recommended deficit target of 2.8% of GDP. The unadjusted and adjusted changes in the structural balance are both projected to be -0.2% of GDP, further widening the gap vis-a-vis the recommended effort. Also based on the bottom-up method, no fiscal effort is projected to be delivered by Spain in 2016, which implies falling significantly short of the 1.5% of GDP effort deemed necessary to achieve the target." *(page 15).*

PORTUGAL

Subject to EDP under Article 126 of TFEU

Objective: Correction of excessive deficit by 2015
based on the Council decision from June 2013under Article 126(7) of the TFEU

Commission assessments on the compliance with nominal target and/or fiscal effort as requested by latest Council EDP- recommendations under Article 126 of the TFEU

COM Opinion on 2016 DBP of 16 November 2015 (Regulation 473/2013)			**COM assessment included in the recommendation for a Council opinion on the 2016 Stability Programme of 18 May 2016 (Regulation 1466/97)**			**Commission recommendation based on assessment of action taken (Regulation 1467/97)**
Overall assessment	Assessment of efforts undertaken in 2015	Assessment of efforts undertaken in 2016	Overall assessment	Assessment of efforts undertaken in 2015	Assessment of efforts undertaken in 2016	Assessments
No overall assessment of fiscal effort as requested by latest EDP recommendation. The Opinion focuses on progress in 2016 (one year after deadline for correcting the excessive deficit): *"As Portugal had a 2015 deadline to correct its excessive deficit, Portugal was to become subject to the preventive arm of the Stability and Growth Pact and to the transitional debt rule as from 2016. Therefore, the Council on*	Nominal target: ***No assessment; only presentation of DBP objectives****: "For 2015, the DBP projects a general government headline deficit of 4.2% of GDP, 1.5 pps. higher than the target of the 2015 Stability Programme. The difference is mainly related to the direct public support of 1.2% of GDP to the Banif bank resolution operation. The remaining difference of 0.3% of GDP mainly reflects higher-than–initially projected capital expenditure and*	Portugal has 2015 as deadline for correcting its excessive deficit. Therefore, **the DBP assessment of 2016 pertains to the preventive arm** (see underneath in this table).	*"Portugal is currently in the corrective arm of the Stability and Growth Pact.* ***It did not correct the excessive deficit by the 2015 deadline and did not deliver the fiscal effort recommended by the Council.*** *In its 2016 stability programme, the government plans to correct the excessive deficit and reach a headline deficit of 2.2% of GDP in 2016." (Recital 5)*	Nominal target: *"Portugal is currently in the corrective arm of the Stability and Growth Pact.* **It did not correct the excessive deficit by the 2015 deadline and did not deliver the fiscal effort recommended by the Council.***"* (Recital 5) Top down assessment: No assessment. Bottom up assessment: No assessment.	Nominal target: **No assessment related to EDP recommendation, only statement that Portugal plans to correct the excessive deficit in 2016**, one year after the deadline set by the Council: *"In its 2016 stability programme, the government plans to correct the excessive deficit and reach a headline deficit of 2.2% of GDP in 2016."* (Recital 5) Top down assessment: No assessment pertaining to EDP recommendation	No recent recommendation of COM to Council assesssing compliance with the latest EDP-recommendation. Last report was published in November 2013 **u**nder the EDP Regulation 1467/97, The COM indicated that it will revise its assessment in **early July 2016.** See below the COM assessment under Article 121(2) of the TFEU and Regulation 1466/97 and the DG ECFIN staff assessment on the 2016

14 July 2015 recommended Portugal to achieve a structural effort of 0.6% of GDP in 2016. This constitutes the budgetary obligation of Portugal against which the DBP is being assessed." (p. 3)	*lower non-tax revenue."(p. 3)* Top down assessment: No assessment. Bottom up assessment: No assessment.				(only to CSR of preventive arm recommendation of 2015, see below). Bottom up assessment: No assessment.	Stability Programme of Portugal.

Assessment undertaken as part of the Country Specific Recommendations under Article 121(2) of TFEU

COM Opinion on 2016 DBP of 16 November 2015 (Regulation 473/2013)	**COM assessment included in the recommendation for a Council opinion on the 2016 Stability Programme of 18 May 2016 (Regulation 1466/97)**
"*Overall, based on the planned structural adjustment in the DBP as well as the additional information regarding the new 2015 baseline and the expected yield of the additional structural consolidation measures announced on 5 February, **the structural adjustment planned by the Portuguese authorities is estimated between 0.1% and 0.2% of GDP. The deviation from the recommended structural adjustment of 0.6% of GDP is below 0.5% of GDP and therefore not considered significant**." (pp. 4-5)* *"In conclusion, provided that all the above deficit-improving structural measures are implemented strictly and in a timely manner, the Commission is of the opinion that the government no longer plans a significant deviation from the recommended structural adjustment. **Nevertheless, based on the Commission's 2016 winter forecast and its assessment of the additional measures announced on 5 February, the Commission considers that the government's plans are at risk of non-compliance with the provisions of the Stability and Growth Pact. In particular, after taking into account the additional information and the expected yield of the additional measures, there is a risk of a significant deviation from the structural adjustment recommended by the Council on 14 July 2015**. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the Stability and Growth Pact." (p. 5)*	"*Once a durable correction of the excessive deficit has been achieved, Portugal will become subject to the preventive arm and to the transitional debt rule. **The (recalculated) structural balance is set to improve only by around 0.35% of GDP per year, below the required 0.6% of GDP, between 2016 and 2020, and the medium-term budgetary objective – a structural surplus of 0.25 % of GDP – is not expected to be achieved within the time horizon of the programme**. According to the stability programme, the government debt-to-GDP ratio is expected to fall to 124.8% in 2016 and to continue declining to 110.3% in 2020. The macroeconomic scenario underpinning these budgetary projections is rather optimistic. Moreover, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, the general government deficit is projected to reach 2.7% of GDP in 2016, below the Treaty reference value of 3% of GDP, and 2.3% of GDP in 2017. **As the structural deficit is projected to slightly increase in 2016 and 2017, the fiscal effort is not in line with the requirements of the Stability and Growth Pact. Moreover, Portugal is not forecast to comply with the transitional debt rule in 2017. Based on its assessment of the stability programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Portugal will not comply with the provisions of the Stability and Growth Pact**. Therefore further measures will be needed to ensure compliance in 2016 and 2017*." (Recital 5)

[DG ECFIN staff assessment (on the compliance with nominal target and/or fiscal effort) of 28 May 2016 of the 2016 SP of Portugal]
*"In 2015, Portugal achieved a **headline deficit of 4.4% of GDP, which was above the recommended target of 2.5% of GDP and above the Treaty reference value of 3% of GDP**. Therefore, Portugal did not correct its excessive deficit by the 2015 deadline recommended by the Council. **The fiscal effort indicators also point to a shortfall in the structural effort**, based on the change in both the unadjusted and adjusted structural balance in 2015 and in cumulative terms over 2013-2015, as well as on the permanent consolidation measures taken under the programme and thereafter" (p. 23)* *"According to the EDP notification of the 2015 general government deficit on 31 March 2016 and its validation by Eurostat on 21 April 2016, the 2015 deficit came out at 4.4% of GDP. Hence, Portugal did not correct its excessive deficit by the 2015 deadline recommended by the Council in 2013. Taking into account the negative impact of 1.4% of GDP stemming from the financial sector support in the Banif resolution at the end of 2015 and also the deficit-reducing one-off measures, estimated at around 0.2% of GDP, **the headline deficit net of one-offs would have reached 3.2% of GDP according to the Commission 2016 spring forecast**.* *Since the deficit reduction (excluding the impact of one-offs) was based on cyclical factors rather than on additional structural measures, the **structural balance is estimated to have deteriorated by about 0.6% of GDP in 2015, falling significantly short of the 0.5% of GDP improvement recommended by the Council**. **The cumulative fiscal effort over 2013-2015 is estimated at 1.1% of GDP, also significantly below the 2.5% of GDP recommended by the Council**. After correction for the effects of revised potential output growth and revenue windfalls/shortfalls, **the adjusted cumulative fiscal effort is estimated at -0.1% of GDP, thus even more distant from the 2.5% recommended structural effort.**. The amount of measures implemented until June 2014 was deemed in line with the targets under Portugal's economic adjustment programme. Thereafter, the amount of permanent consolidation measures for 2014 was significantly reduced to around 1.5% of GDP in the projection underlying the 2015 Budget, thus falling clearly short of the recommendation to take at least 2.0% of GDP of additional measures in 2014. For 2015, the amount of permanent fiscal consolidation measures was further reduced to around 0.6% of GDP in the 2015 Budget and the headline target was set at 2.7% of GDP. Thus, the planned structural consolidation measures were insufficient to achieve the recommended 2015 deficit target of 2.5 % of GDP, which was confirmed by the 2015 deficit outturn." (page 14)*

ITALY

Subject to the preventive arm of the SGP under Article 121 of the TFEU

Objective set by the Council (2015 CSR 1) :

"Achieve a fiscal adjustment of at least 0.25 % of GDP towards the medium-term budgetary objective in 2015 and of 0.1 % of GDP in 2016 by taking the necessary structural measures in both 2015 and 2016, taking into account the allowed deviation for the implementation of major structural reforms"

Commission assessments on the compliance with the MTO or adjustment path towards the MTO

COM Opinion on 2016 DBP of 16 November 2015			**COM assessment included in the recommendation for a Council opinion on the 2016 Stability Programme of 18 May 2016**
Overall assessment	Assessment of efforts undertaken in 2015	Assessment of efforts undertaken in 2016	
"Overall, the Commission is of the opinion that the Draft Budgetary Plan of Italy, which is currently under the preventive arm and subject to the transitional debt rule, is ***at risk of non-compliance with the provisions of the Stability and Growth Pact.*** *In particular, according the Commission 2015 autumn forecast there is* ***a risk of significant deviation from the required adjustment path towards the MTO in 2016****". (p. 5)*	*"In 2015, Italy has to achieve a structural adjustment of 0.25% of GDP towards its MTO.* ***The planned (recalculated) structural effort of 0.2% of GDP, points to some deviation****. […] Overall, Italy plans some deviation from the required adjustment towards the MTO in 2015.* ***This conclusion is confirmed based on the Commission 2015 autumn forecast*** *[…]." (p. 4)*	*"****The Draft Budgetary Plan envisages a (recalculated) structural deterioration of 0.5% of GDP in 2016*** *which compared to the improvement of 0.1% of GDP required in the country-specific recommendation, points to a risk of significant deviation from the adjustment path towards the MTO. […]* ***The Commission forecast envisages a structural deterioration of the same magnitude****". (p. 5)*	*"In spring 2015,* ***Italy was granted a temporary deviation of 0.4 percentage points of GDP from the required adjustment path towards the medium-term budgetary objective in 2016*** *to take account of major structural reforms with a positive impact on the long-term sustainability of public finances. In its 2016 Draft Budgetary Plan,* ***Italy requested an additional deviation of 0.1 percentage points of GDP from the required adjustment path towards the medium-term budgetary objective in 2016 to take account of other structural reforms*** *with a positive impact on the long-term sustainability of public finances." (Recital 7)* *"In its 2016 Draft Budgetary Plan,* ***Italy requested an additional deviation of 0.3 percentage points of GDP from the required adjustment path towards the medium-term budgetary objective in 2016 to take account of national investment expenditure in projects co-financed by the EU****." (Recital 8)* *"The 2016 stability programme indicates that* ***the budgetary impact of the exceptional inflow of refugees*** *as well as of exceptional security measures is significant and that these should be considered as an unusual event outside the control of the government, as defined in article 5.1 and article 6.3 of Regulation (EC) No 1466/97. According to the Commission, the additional impact is in line with the estimations provided by the stability programme and* ***amounts to 0.03 % of GDP in 2015 and 0.04 % in 2016 for***

"The Commission is also of the opinion that Italy has made ***some progress with regard to the country-specific recommendations*** *issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to make further progress". (p. 5-6)*			***refugee-related expenditure and at 0.06 % of GDP in 2016 for security measures****. In relation to this, Italy requested a temporary deviation from the adjustment path towards the medium-term budgetary objective. The provisions defined in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 allow catering for this additional expenditure, in that the inflow of refugees as well as the severity of the terrorist threat are exceptional events, their impact on Italy's public finances is significant and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the medium-term budgetary objective.* ***Therefore, the required adjustment towards the MTO for 2015 has been reduced to take into account additional refugee-related costs. Regarding 2016, a final assessment, including on the eligible amounts, will be made in spring 2017 on the basis of observed data as provided by Italian authorities****". (Recital 9)* *"Based on the Commission 2016 spring forecast, the projected structural deterioration of -0.7 % of GDP in* ***2016*** *points to a* ***risk of some deviation from Italy's obligations under the preventive arm of the SGP****, after taking into account the deviation allowed for investments and the implementation of structural reforms. In* ***2017****, under the no-policy-change assumption, the Commission's forecast shows a zero structural effort in 2017, as a result of which there would be a* ***risk of significant deviation*** *from the required 0.6 % of GDP structural adjustment." (Recital 10)* *"Overall, based on its assessment of the 2016 stability programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that* ***Italy is at risk of non-compliance with the provisions of the Stability and Growth Pact.*** *The Commission will reassess Italy's compliance with the required adjustment towards the medium-term budgetary objective based on its 2016 autumn forecast as further information on Italy's resumption of the adjustment path towards the MTO for 2017 becomes available, including the 2017 Draft Budgetary Plan." (Recital 12)*

LITHUANIA

Subject to the preventive arm of the SGP under Article 121 of the TFEU

Objective set by the Council (2015 CSR 1) :

"Avoid deviating from the MTO in 2015 and ensure that the deviation in 2016 is limited to the allowance linked to the systemic pension reform"

Commission assessments on the compliance with the MTO or adjustment path towards the MTO

<table>
<tr><th colspan="3">COM Opinion on 2016 DBP
of 16 November 2015</th><th>COM assessment included in the recommendation
for a Council opinion on the 2016 Stability Programme
of 18 May 2016</th></tr>
<tr><td>Overall assessment</td><td>Assessment of efforts undertaken in 2015</td><td>Assessment of efforts undertaken in 2016</td><td rowspan="2">"In its 2016 stability programme, Lithuania has requested a temporary deviation of 0.6% of GDP from the required adjustment path towards the medium-term objective in 2017, to take account of major structural reforms with a positive impact on the long-term sustainability of public finances. However, pending a final agreement, uncertainty on the set of reform measures as well as their implementation remains. Thus, while Lithuania has sufficient fiscal space to benefit from a temporary deviation, it does not appear to fulfil the eligibility criterion related to the implementation of the reform to avail from the structural reform clause. Moreover, it is currently not possible to assess the plausibility of the impact of the reform estimated by the government. Therefore, the impact of these reforms has not yet been reflected in the required adjustment towards the medium-term budgetary objective for 2017." (Recital 5)

"Lithuania is currently under the preventive arm of the SGP. In its 2016 stability programme, the government plans an improvement of the headline balance from a deficit of 0.8% of GDP in 2016 to a surplus of 0.9% of GDP in 2019. The structural balance is set to deteriorate temporarily in 2016 before reaching the medium-term budgetary objective — a deficit of 1 % of GDP in structural terms — by 2017 and staying above it thereafter. The adjustment path incorporates the systemic pension reform in 2016 but does not reflect the planned structural reform in 2017. According to the stability programme, the government debt-to-GDP ratio is expected to fall from</td></tr>
<tr><td>"Overall, the Commission is of the opinion that the Draft Budgetary Plan of Lithuania, which is currently under the preventive arm, is at risk of non-compliance with the provisions of the SGP. According to the Commission 2015 autumn forecast, the required adjustment towards the MTO is not projected to be delivered and a significant deviation from the MTO is to be expected in 2016. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget</td><td>"The (recalculated) structural balance of the Draft Budgetary Plan is expected to improve by 0.1% of GDP in 2015, slightly below the required improvement of 0.2% of GDP. [...] In the Commission 2015 autumn forecast, the structural balance is projected to improve by 0.2% of GDP, in line with the required adjustment, reaching – a structural deficit of 1.2% of GDP. As a result, Lithuania is assessed to be at its MTO (set at -1% of GDP) due to the 0.25% GDP margin of tolerance. [...] Lithuania is thus considered to be</td><td>"In 2016, the (recalculated) structural deficit of the Draft Budgetary Plan points to a risk of a significant deviation (gap of 0.6% of GDP) from the required adjustment of 0.1% of GDP. [...] According to the Commission 2015 autumn forecast, the structural balance is set to deteriorate by 0.2% of GDP, pointing to a risk of some deviation (gap of 0.3% of GDP). The expenditure benchmark points to a risk of a significant deviation in 2016 (gap of 1.2% of GDP). This warrants an overall assessment. First, the structural balance is positively</td></tr>
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will be compliant with the SGP". (pp. 4-5) *"The Commission is also of the opinion that Lithuania has made* ***limited progress with regard to the country-specific recommendations*** *issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to accelerate progress". (p. 5)*	*compliant with the requirements in 2015". (pp. 3-4)*	*affected by revenue windfalls (whereas shortfalls are expected in the Draft Budgetary Plan as the plan forecasts a larger positive output gap for 2016).* ***Correcting for these windfalls, the projected deviation based on the structural balance pillar would become significant.*** *Second, while the deviation from the expenditure benchmark is partly the result of deficit-increasing one-offs and fluctuations in public investment, it would remain significant when corrected for these elements. Therefore, the overall assessment points to a risk of significant deviation from the MTO in 2016". (p. 4)*	*39.9% of GDP in 2016 to 35.7% in 2019. The macroeconomic scenario underpinning these budgetary projections is plausible. The measures needed to support the planned deficit targets from 2018 onwards have not been sufficiently specified yet.* ***Based on the Commission 2016 spring forecast, the structural balance is forecast to be at -1.2 % of GDP in 2016, which can be considered as close to the medium-term budgetary objective, and at -0.8% of GDP in 2017, above the medium-term budgetary objective.*** *Based* ***on its assessment of the stability programme and taking into account the Commission 2016 spring forecast Lithuania is expected to comply with the provisions of the SGP.****" (Recital 6)*

Commission assessments on the compliance with the debt criterion of the TFEU

COM Opinion on 2016 DBP of 16 November 2015	**COM assessment included in the recommendation for a Council opinion on the 2016 Stability Programme of 18 May 2016**
Not applicable as Lithuania's debt-to-GDP ratio is below the threshold of 60%. *"The Draft Budgetary Plan foresees general government debt at 42.9% of GDP in 2015 and 40.8% of GDP for 2016, similar to the Commission forecast. The debt increase in 2015 compared to the Stability Programme can be mostly explained by a higher-than-usual pre-financing of EU funded expenditures. The increase in 2016 is explained by a shift in timing of pre-financing of forthcoming bond redemptions and a slightly higher 2016 general government deficit. Risks to the debt projections are balanced." (p. 3)*	**Not applicable** as Lithuania's debt-to-GDP ratio is below the threshold of 60%. *"According to the stability programme, the government debt-to-GDP ratio is expected to fall from 39.9% of GDP in 2016 to 35.7% in 2019." (Recital 6)*

DG ECFIN staff assessment of the 2016 Stability Programme of 26 May 2016
(complementing Lithuania's 2016 Country Report of 26 February 2016)

"In 2015, Lithuania achieved an improvement of the structural balance of 1.1% of GDP, above the required structural improvement of 0.2% of GDP, and the structural balance fell well below its MTO. ***Following an overall assessment, it appears that the adjustment path towards the MTO in 2015 was appropriate and in line with the requirements of the preventive arm of the Pact.***

Lithuania plans to remain at the MTO over the period 2016-2019. *The planned efforts would ensure continued compliance with the provisions of the SGP. Based on the Commission 2016 spring forecast the structural balance is forecast to be at -1.2 % of GDP in 2016, which can be considered as close to the MTO, and at -0.8% of GDP in 2017, above the MTO.* ***Lithuania is expected to be in line with the provisions of the SGP in both 2016 and 2017****." (p. 18)*

AUSTRIA

Subject to the preventive arm of the SGP under Article 121 of the TFEU

Objective set by the Council (2015 CSR 1) :

"Avoid deviating from the medium-term budgetary objective in 2015 and 2016"

Commission assessments of the compliance with the MTO or adjustment path towards the MTO

COM Opinion on 2016 DBP of 16 November 2015			**COM assessment included in the recommendation for a Council opinion on the 2016 Stability Programme of 18 May 2016**
Overall assessment	Assessment of efforts undertaken in 2015	Assessment of efforts undertaken in 2016	*"The **stability programme indicates that the budgetary impact of the exceptional inflow of refugees is significant and provides adequate evidence of the scope and nature of these additional budgetary costs**. According to the Commission, the eligible additional expenditure amounted to 0.09% of GDP in 2015 and is currently estimated at 0.26% of GDP in 2016. These amounts represent an upward revision with respect to the estimates provided by the 2016 draft budgetary plan, which expected additional expenditure at around 0.08 % of GDP and 0.16 % of GDP in 2015 and 2016 respectively. The provisions defined in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 allow catering for this additional expenditure, in that the inflow of refugees is an exceptional event, its impact on Austria`s public finances is significant and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the medium-term budgetary objective. In 2015, as Austria was at its medium-term budgetary objective, it did not make use of the possible temporary deviation. **However, in order to ensure that Austria is allowed the same temporary deviation as countries not yet at their medium-term budgetary objective, Austria will be allowed to deviate from its medium-term budgetary objective in 2016 and 2017 by the amount considered eligible for 2015.** Regarding possible additional deviation in 2016, a final assessment, including on the eligible amounts, will be made in spring 2017 on the basis of observed data as provided by the Austrian authorities." (Recital 5)*
*"Overall, the Commission is of the opinion that the Draft Budgetary Plan of Austria, which is currently **under the preventive arm and subject to the transitional debt rule is at risk of non-compliance with the provisions of the SGP.** In particular, the Commission 2015 autumn forecast points to **a risk of significant deviation from the MTO in 2016**. However, in case the current estimate of the budgetary impact of the exceptional inflow of refugees was excluded from the assessment, the projected deviation would no longer be significant". (p. 6)*	*"In 2015, **according to the information provided in the Draft Budgetary Plan, both the structural balance pillar and the expenditure benchmark point to compliance**. [...] The **Commission 2015 autumn forecast provides a near-identical reading**." (p. 4)*	*"For 2016, **according to the information provided in the Draft Budgetary Plan, the change in the recalculated structural balance of -0.1% of GDP points to a risk of some deviation (gap of -0.2% of GDP) from the required adjustment of 0.1% of GDP**. [...]**As to the Commission 2015 autumn forecast, the structural balance is expected to deteriorate by 0.4% of GDP in 2016, resulting in a significant deviation from the required adjustment towards the MTO** (gap of -0.6% of GDP). [...] Nevertheless, a part of the deviation from the MTO,*	

"The Commission is also of the opinion that Austria has made ***limited progress with regard to addressing the country-specific recommendations*** *issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to accelerate progress". (p. 6)*		*both on the basis of the structural balance and the expenditure benchmark pillar, is due to an increase in refugee-related spending. If the current estimate of the increase in refugee-related expenditure was excluded, the assessment would point to a risk of some deviation from the MTO in 2016." (pp. 4-5)*	*"**Austria is currently in the preventive arm of the SGP and subject to the transitional debt rule.** In its 2016 stability programme, the government expects that the headline deficit will deteriorate to 1.6 % of GDP in 2016 and then gradually improve to 0.4 % of GDP in 2020. The medium-term budgetary objective — a structural deficit of 0.45 % of GDP until 2016 and revised to become a structural deficit of 0.5% of GDP as from 2017 — is foreseen to be met from 2018 onwards. However, based on the **recalculated structural balance, the medium-term budgetary objective would only be met as from 2019**. According to the stability programme, the government debt-to-GDP ratio is expected to have peaked at 86.2 % in 2015 and to gradually decline to 76.6 % in 2020. The macroeconomic scenario underpinning these budgetary projections is plausible. At the same time, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. **Based on the Commission 2016 spring forecast, there is a risk of some deviation in 2016.** However, if the additional impact of the **exceptional inflow of refugees currently projected for 2016 is also excluded from the assessment, Austria would be expected to comply with the provisions of the SGP in 2016**. Under unchanged policies, there is a risk of a significant deviation from the recommended adjustment in 2017. However, the projected deviation in 2017 would no longer be significant after considering the further allowance linked to the budgetary impact of the exceptional inflow of refugees possibly granted for 2016. Austria is forecast to comply with the transitional debt rule in 2016 and, following the end of the transition period, the debt reduction benchmark in 2017. **Based on its assessment of the stability programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Austria will not comply with the provisions of the SGP. Therefore further measures will be needed to ensure compliance in 2016 and 2017**." Recital (6)*

Annex 2: 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](): Article 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.

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. 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.

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.

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. (...)

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.

Issuance of 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