European Parliament

IN-DEPTH ANALYSIS

Thematic overview: Member States whose 2017 Draft Budgetary Plans were assessed to be "at risk of non-compliance" with the Stability and Growth Pact

This briefing gives an overview of recent European Commission (COM) assessments of the budgetary situation of seven Member States (Portugal, Italy, Belgium, Cyprus, Lithuania, Slovenia and Finland) whose 2017 Draft Budgetary Plans (DBPs) were considered to be "at risk of non-compliance" with their obligations under the Stability and Growth Pact (SGP). This briefing may be updated pending new COM and Council decisions.

The countries at risk of non-compliance

The briefing contains - in the overleaf table - a detailed overview on the development of the COM assessments on those countries which were considered in the COM opinions on the 2017 DBPs (submitted by Euro Area Member States in accordance with EU Regulation 473/2013) to be "*at risk of non-compliance*" with the SGP with their nominal and structural targets (and the debt rule) as adopted by the Council. The procedural development has been as follows:

- The COM opinions on the 2017 DBPs (published in November 2016 and January 2017) concluded that seven Euro Area Member States were at "*risk of non-compliance*" with their current obligations under the SGP, namely **Portugal** in the corrective arm and **Belgium, Italy, Cyprus, Lithuania, Slovenia, Finland** in the preventive arm of the SGP.
- On 22 February 2017, the COM published a **report on Italy** on the basis of Art. 126(3) of the Treaty. The report concluded *inter alia* that the debt criterion *"should be considered as currently not complied with. However, a decision on whether to recommend opening an Excessive Deficit procedure would only be taken on the basis of the COM 2017 spring* ***forecast****, taking into account outturn data for 2016 and the implementation of the fiscal commitments made by the Italian authorities in February 2017."*
- On 22 February 2017, the COM published the European Semester country reports, which include assessments of implementation on the 2016 Country Specific Recommendations (CSRs). While these assessments explicitly exclude analyses of compliance with the SGP, they provide specific assessments of compliance with the (SGP related) structural elements of the 2016 fiscal CSRs as adopted by the Council. These COM assessments are included in the overleaf table, in order to facilitate the fiscal policy scrutiny of Member States "*at risk of non-compliance*" with the SGP.
- The COM Semester package of 22 May 2017 includes inter alia 1) the COM recommendations for Council opinions on the 2017 Stability and Convergence Programmes (these draft opinions form part of the draft 2017 fiscal CSRs); 2) reports under Art. 126 (3) for Belgium and Finland; and 3) proposals for EDP decisions for Croatia and Portugal. As regards the above mentioned seven countries, the country-specific situation can be summarized as follows:

  - The COM proposes to abrogate the EDP for **Portugal** since the **excessive deficit** has been corrected based on data verified by Eurostat and the COM spring 2017 forecast.

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- **Belgium and Portugal** are still at risk of a significant deviation (see Box 1) from the recommended adjustment towards the Medium-Term Objective (MTO) both for 2017 and 2018; no further procedural steps are however envisaged by the COM "*in light of the cyclical conditions*" of the Belgium and Portuguese economy and in light of the need to achieve a fiscal stance that contributes to the ongoing recovery.
- The debt criterion as defined in the Treaty does not appear to have been fulfilled *prima facie* in 2016 by **Belgium**; however, taking into account the relevant factors (notably the implementation of growth-enhancing structural reforms in recent years) the COM concludes that the debt criterion as defined in Regulation (EC) No 1467/1997 should be considered as currently complied with.
- **Cyprus** is assessed to be compliant in 2017 with its requirement to respect the MTO in 2016 and 2017. For 2018, Cyprus is at risk of some deviation from that requirement from the expenditure benchmark; therefore, Cyprus is recommended to stand ready to take further measures to ensure compliance in 2018.
- As regards the debt criterion, **Italy** is assessed to have adopted the additional consolidation measures (requested by the COM in its Art. 126 (3) report of February 2017) of at least 0.2% of GDP. As regards the recommended annual fiscal adjustment of 0.6 % or more of GDP towards the MTO in 2017, the COM assesses a risk of a significant deviation in 2017 and for 2016 and 2017 taken together. If the temporary allowance for the unusual event clause related to the exceptional inflow of refugees and to the preventive investment plan for the protection of the national territory against seismic risks (preliminarily estimated at 0.34% of GDP, overall) is deducted from the requirement in 2017, the COM identifies only the risk of some deviation from the recommended adjustment.
- **Lithuania,** taking into account the flexibility clause for the systemic pension reform and other structural reforms, is assessed to comply with the provisions of the SGP in 2017 and 2018. The flexibility clause would allow a temporary deviation from the MTO adjustment path of 0.5% of GDP.

Box 1: Significant deviation

Regulation. 1466/97 stipulates that in the event of a 'significant deviation' (= 0.5% of GDP in 1 year or cumulatively over 2 years) from the MTO or from its adjustment path, the COM can give an 'early warning'. While many countries are currently assessed to be at risk of such a deviation, Romania has been assessed by the COM on 22 May 2017 to have had a significant deviation from the MTO in 2016 (the deviation amounted according to COM spring forecast to 1.6% of GDP), so that the COM addressed a warning to Romania and proposed a Council recommendation for Romania to take appropriate corrective measures in 2017, in order to avoid the opening of an EDP.

The Council shall, within 1 month of the date of adoption of the warning adopt a recommendation for the necessary policy measures, on the basis of a COM recommendation. 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 COM, in its warning, considers that the situation is particularly serious and warrants urgent action. The Council, on a proposal from the COM, 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.

Regulation 1173/2011, Art 4 stipulates for euro area Member States that if a Member State fails to take action in response to the Council recommendation based on an early warning of the COM, , the COM shall, within 20 days of adoption of the Council's decision, recommend that the Council, by a further decision, require the Member State to lodge with the COM an interest-bearing deposit amounting to 0,2 % of its GDP in the preceding year. The entire legal basis is available in the annex of this briefing.

- For **Slovenia**, the COM assesses a risk of some deviation in 2017 from the requirement of an annual fiscal adjustment of at least 0.6% of GDP towards the MTO. Furthermore, there is a risk of a significant deviation from that requirement in 2018.
- **Finland** is judged to be compliant in 2017 and 2018 with the annual fiscal adjustment of at least 0.6% of GDP towards the MTO, if the flexibility under the structural and investment clauses is granted; the clauses would allow a temporary deviation from the MTO adjustment path of 0.5% of GDP and additional 0.1% for projects co-financed by the EU under the European Structural and Investment Funds. The assessment of the compliance with the debt criterion is the same as for Belgium: While the criterion is prima facie not fulfilled, the COM assesses that it should be considered as currently complied with on the basis of implemented structural reforms which are expected to contribute to enhancing the economy's growth potential.

For further information on the COM assessments, please see table overleaf. For details on the implementation of the SGP based on the spring forecast figures, please see separate EGOV note.

The methodological framework

The COM assessments of the fiscal effort/effective action taken by the concerned Member States have been made on the basis of a common methodological framework which was updated in July 2016 (and previously in June 2014). 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 2017. 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 2016 CSRs adopted by the Council 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.

See also separate EGOV briefings “Implementation of the SGP”, “Structural budget balances in EU Member States” and “The role of national fiscal bodies: State of play”.

Portugal

Subject to EDP: Compliance with nominal target [-2.5% of GDP in 2016] and/or fiscal effort [unchanged structural balance in 2016] as requested by the EDP recommendation; If subject to preventive arm: Compliance with 2016 fiscal CSR [notably: "fiscal adjustment of at least 0,6 % of GDP" after 2016]

	Overall compliance with the recommendations under EDP (for 2016) and the 2016 fiscal CSR (for 2017)	***Detailed assessment of compliance***	
		2016	**2017**
COM DBP Opinion (11/2016)	*"Overall, the COM is of the opinion that the DBP of Portugal, which is currently under the corrective arm of the SGP and could become subject to the preventive arm of the SGP from 2017 (...) is* ***at risk of non-compliance with the provisions of the SGP****.* *In particular, the COM forecast for 2017 projects a* ***significant deviation from the required adjustment path towards the MTO*** *and non-compliance with the debt reduction benchmark. The projected deviation however exceeds the threshold for a significant deviation by a very narrow margin. The risks seem therefore contained provided the necessary fiscal measures are delivered. (...) the COM therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2017 budget will be compliant with the SGP.*" (p. 5)	Nominal deficit: "*For 2016, the DBP and the report on effective action project the headline deficit to reach 2.4% of GDP, i.e. slightly below the 2.5% of GDP target set in the Council decision of 8 August 2016.* ***According to the COM 2016 autumn forecast, Portugal is projected to bring the headline deficit to 2.7% of GDP in 2016, above the requested deficit target of 2.5% of GDP but below the Treaty reference value of 3% of GDP***" (p. 4) Top down assessment: "***The structural balance is projected to deteriorate very slightly in 2016. The change in the structural balance in 2017 is projected at 0.0% of GDP. This compares to the (recalculated) 0.0% and 0.3% of GDP changes reported by the authorities for 2016 and 2017 respectively****, mostly reflecting the COM forecast's less optimistic macroeconomic outlook and expected higher spending pressures.*" (p. 4) "*The requested fiscal effort of an unchanged structural balance is not met according to the COM's projection of a slight deterioration by 0.1% of GDP in the unadjusted structural balance.*" (p. 4) [Note of EGOV: based on the recalculated structural balance (see above), the required fiscal effort is estimated by the COM to be met]. Bottom up assessment: "***The fiscal effort is also projected to be met on the basis of the bottom-up method (...). Overall, while the headline target is not projected to be met, the fiscal effort is projected to be met based on the adjusted structural balance and the bottom up methods***." (p. 4)	Nominal deficit: "***For 2017, the DBP plans a general government deficit of 1.6% of GDP*** *(...)*" (p. 3) "*The COM 2016 autumn forecast projects a headline deficit of (...) 2.2% in 2017. The discrepancy vis-à-vis the DBP targets mostly reflects a less optimistic macroeconomic scenario and higher expenditure pressure.*" (p. 4) Top down assessment: "***The change in the structural balance of 0.0% of GDP in 2017 projected by the COM 2016 autumn forecast is below the requirement of 0.8% of GDP*** *calculated on the basis of the COM 2016 autumn forecast.*" (p. 4) "*The DBP targets an improvement of the (recalculated) structural balance by 0.3% of GDP thus planning* ***some deviation from the required adjustment path towards the MTO in 2017****. (...) The COM 2016 autumn forecast projects an* ***unchanged structural balance in 2017 with respect to 2016, suggesting a risk of significant deviation from the required structural improvement by 0.6% of GDP on the basis of the structural balance pillar***." (p. 5)

	Compliance with the structural part of the 2016 fiscal CSR
	"The COM is also of the opinion that Portugal has made **limited progress with regard to the structural part of the fiscal CSRs issued by the Council** in the context of the 2016 European Semester, and thus invites the authorities to accelerate progress." (p. 5)
Compliance with the obligations under the EDP	
COM proposal under EDP (5/2017)	"(8) Based on data provided by the COM (Eurostat) in accordance with Art. 14 of Regulation (EC) No 479/2009, following the April 2017 notification by Portugal, the 2017 Stability Programme and the COM 2017 spring forecast, the following conclusions are warranted: – After reaching 4.4% of GDP in 2015 (3.1% of GDP net of one-offs), the general government deficit was reduced to 2.0% of GDP in 2016 (2.3% of GDP net of one-offs). (...) – The Stability Programme for 2017-2021, submitted by the Portuguese government on 28 April 2017, plans the general government deficit to decline to 1.5% of GDP in 2017 and 1.0% of GDP in 2018. **The COM 2017 spring forecast projects a deficit of 1.8% of GDP in 2017 and 1.9% of GDP in 2018, thus remaining below the 3%-of-GDP Treaty reference value over the forecast horizon**. Those projections do not include the potential deficit-increasing impact of bank support measures, which should not put at risk the durable reduction of the deficit. (...) – The gross government debt-to-GDP increased to 130.4% in 2016, from 129.2% in 2015, due to debt-increasing stock-flow adjustments. The COM 2017 spring forecast projects the debt ratio to decrease to 128.5% in 2017 and 126.2% in 2018 due to primary surpluses. (9) In accordance with Article 126(12) of the Treaty, a Council Decision on the existence of an excessive deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected. (10) In the view of the Council, **the excessive deficit in Portugal has been corrected and Decision 2010/288/EU should therefore be abrogated.** (11) **As from 2017, the year following the correction of the excessive deficit, Portugal is subject to the preventive arm of the SGP** and should progress towards its MTO at an appropriate pace, including respecting the expenditure benchmark, and comply with the debt criterion in accordance with Article 2(1a) of Regulation (EC) No 1467/97" (pp 3-4).
Compliance with the 2016 fiscal CSR	
COM Country report (2/2017)	The compliance assessment with the SGP (notably with the decisions or recommendations under the EDP) is not part of the country report of February 2017; it was conducted in May 2017 in the framework of the COM proposal for the 2017 fiscal CSR, on the basis of final data for 2016 (see below). However, the country report states that Portugal has made limited progress in addressing the structural part of the fiscal CSR issued by the Council: "***Some progress*** *in conducting a comprehensive expenditure review."* *"**Some progress** in ensuring the long-term sustainability of the healthcare sector."* *"**Limited progress** in reducing the reliance of pension system on budgetary transfers."* *"**No progress** in refocusing restructuring plans of state-owned enterprises.*" (p. 56)

COM proposal for 2017 CSR (5/2017)	“(7) *On 12 July 2016, the Council recommended Portugal to achieve an annual fiscal adjustment of at least 0.6% of GDP towards the medium-term budgetary objective in 2017. Based on the Commission 2017 spring forecast, there is a* ***risk of a significant deviation from that requirement in 2017****.* *(8) In 2018, in light of its fiscal situation and notably of its debt level, 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*[13] *which does not exceed 0.1%. It would correspond to a structural adjustment of at least 0.6% of GDP. Under unchanged policies, there is a* ***risk of a significant deviation from that requirement in 2018****. Portugal is prima facie not forecast to comply with the transitional debt rule in 2017 and 2018. Overall, the Council is of the opinion that further measures will be needed as of 2017 to comply with the provisions of the SGP. However, as foreseen in Regulation (EC) No 1466/97,* ***the assessment of the budgetary plans and outcomes should take account of the Member State's budgetary balance in light of the cyclical conditions****. As recalled in the COM Communication accompanying these country-specific recommendations, the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal to achieve a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of Portugal’s public finances.* ***In that context, the COM intends to make use of the applicable margin of appreciation in light of the cyclical situation of Portugal****.* *“(pp. 4-5)*

<table>
<tr><th colspan="4">Belgium
Subject to the preventive arm: Compliance with the 2016 fiscal CSR [notably: annual structural effort "of at least 0.6% of GDP (...) in 2016 and in 2017"]</th></tr>
<tr><td rowspan="4">COM DBP Opinion (11/2016)</td><th rowspan="2">Overall compliance with the SGP</th><th colspan="2">Detailed assessment of compliance</th></tr>
<tr><th>2016</th><th>2017</th></tr>
<tr><td rowspan="2">"Overall, the COM is of the opinion that the DBP of Belgium, 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." (pp. 5-6)</td><td>"According to the DBP, the change in the (recalculated) structural balance in 2016 falls 0.8% short of the required improvement, pointing to a risk of a significant deviation. Therefore, the plans point to a risk of some deviation from the adjustment path towards the MTO in 2016.(...)

The COM 2016 autumn forecast in turn projects the structural balance to deteriorate by 0.1% of GDP in 2016, leading to a gap of -0.7% of GDP relative to the required effort, which points to a risk of a significant deviation.(...)

As a result, the overall assessment on the basis of the COM 2016 autumn forecast points to a risk of significant deviation from the adjustment path towards the MTO in 2016." (p. 5)</td><td>"In 2017 as well as in 2016 and 2017 taken together, both the (recalculated) structural balance and the expenditure benchmark point to compliance according to the Draft Budgetary Plan. On the basis of the COM forecast for 2017, the structural balance points to compliance and the expenditure benchmark shows a risk of some deviation. In contrast, when 2016 and 2017 are taken together, the COM forecast points to a risk of significant deviation based on both indicators given the large deviations in 2016. (...)
As a consequence, the overall assessment on the basis of the COM 2016 autumn forecast concludes that there is a risk of a significant deviation from the adjustment path towards the MTO in 2016 and 2017 taken together as the significant deviation in 2016 is not sufficiently compensated for in 2017."(p. 5)</td></tr>
<tr><td colspan="2"><u>Debt rule:</u> "On 18 May 2016, the COM issued a report under Article 126(3) TFEU, as Belgium did not make sufficient progress towards compliance with the debt rule in 2015. The report concluded that, after the assessment of all relevant factors, the debt criterion should be considered as complied with." (p. 4)</td></tr>
</table>

	Compliance with the structural part of the 2016 fiscal CSR
	*"The COM is also of the opinion that Belgium has made **no progress with regard to the structural part of the fiscal CSRs** issued by the Council in the context of the 2016 European Semester and thus invites the authorities to accelerate progress.*" (p. 6)

Compliance with the 2016 fiscal CSR	
COM Country report (2/2017)	The compliance assessment with the SGP (notably with the decisions or recommendations under the EDP) is not part of the country report of February 2017; it was conducted in May 2017 in the framework of the COM proposal for the 2017 fiscal CSR, on the basis of final data for 2016 (see below). However, the February country report states that Belgium has made **limited progress** in addressing the structural part of the fiscal CSR issued by the Council: **Limited progress** has been made towards an enforceable distribution of fiscal targets among the various levels of government. The lack of any formal commitment by the regions and communities to disaggregated fiscal trajectories at their own level undermines the credibility of Belgium's overall trajectory and hampers debt reduction efforts. **Some progress** has been made in reforming the tax system: • The federal government has announced its intention to reform corporate taxation in the direction of reducing the nominal statutory rate. A report of the High Council for Finance was published in July 2016 analysing options. As yet, no firm plans have been brought forward. • Measures included in the DBP: a further increase of the withholding tax rate, from 27 % to 30 %; an increase (ceiling is doubled) and broadening (foreign platforms also taxed) of the stock-exchange tax; the abolition of the 'speculation tax'; the introduction of a mobility budget for employees as an alternative to a company car and of a fixed levy imposed on employers for company fuel cards. (...) (pp 51/52)
COM proposal for 2017 CSR (5/2017)	*"(9) On 12 July 2016, the Council recommended Belgium to achieve an annual fiscal adjustment of at least 0.6% of GDP towards the MTO in 2017. Based on the COM 2017 spring forecast, there is a risk of some deviation from that requirement in 2017. However, **there is still a risk of a significant deviation from the recommended adjustment path towards the MTO over 2016 and 2017 taken together**. This conclusion would not change in case the budgetary impact of the exceptional inflow of refugees and of security measures were deducted from the requirement. (10) In 2018, in light of its fiscal situation and notably 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 expenditure11 which does not exceed 1.6% in 2018. It would correspond to an annual structural adjustment of at least 0.6% % of GDP. Under unchanged policies, **there is a risk of a significant deviation from that requirement in 2018. Belgium is prima facie not forecast to comply with the debt rule in 2017 and 2018**. Overall, the Council is of the opinion that further measures will be needed as of 2017 to comply with the provisions of the SGP. However, as foreseen in Regulation (EC) No 1466/97, **the assessment of the budgetary plans and outcomes should take account of the Member State's budgetary balance in light of the cyclical conditions**. As recalled in the COM Communication accompanying these CSRs, the assessment of the 2018 DBP and subsequent assessment of 2018 budget outcomes will need to take due account of the goal to achieve a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of Belgium's public finances. **In that context, the COM intends to make use of the applicable margin of appreciation in light of the cyclical situation of Belgium**." (pp. 4-5)*

Compliance with the debt criterion	
Art 126(3) COM report (5//2017)	According to the COM report prepared in accordance with Art. 126(3) TFEU: "*General government gross debt stood at 105.9% of GDP at the end of 2016, well above the 60% of GDP reference value.* ***Belgium did not make sufficient progress towards compliance with the debt reduction benchmark in 2016. Moreover, the COM forecast does not expect Belgium to comply with the debt reduction benchmark either in 2017 or in 2018, based a no-policy-change assumption. This suggests that before consideration is given to all relevant factors, the debt criterion as defined in the Treaty does not appear to have been fulfilled prima facie in 2016. In line with the Treaty, this report also examined the relevant factors*** *(...) (i) the previously unfavourable but improving macroeconomic conditions, which makes them less of a factor to explain Belgium's large gaps as regards compliance with the debt reduction benchmark; (ii) the fact that, based on the Commission forecast, the deviations from the required adjustment towards the MTO point to a risk of some deviation in 2016 and 2017 individually, but to a significant deviation in 2016 and 2017 together, which can still be corrected in 2017; and (iii) the implementation of growth-enhancing structural reforms in recent years, several of which are considered substantial and projected to help improve debt sustainability.* ***In concluding, the current analysis suggests that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as currently complied with****. At the same time, additional fiscal measures are to be taken in 2017 to ensure broad compliance with the adjustment path towards the MTO in 2016 and 2017 together.*" (p. 17)

<table>
<tr><th colspan="4">Cyprus
Subject to the preventive arm: Compliance with the <u>2016 fiscal CSR</u> [notably: "<u>respect the MTO in 2016 and in 2017</u>", which is set at 0% of GDP]</th></tr>
<tr><td rowspan="6">COM DBP Opinion (11/2016)</td><td rowspan="2">Overall compliance with the SGP</td><td colspan="2">Detailed assessment of compliance</td></tr>
<tr><td>2016</td><td>2017</td></tr>
<tr><td rowspan="2">"Overall the COM is of the opinion that the DBP of Cyprus, which is currently under the preventive arm of the SGP and subject to the transitional debt rule, is at risk of non-compliance with the provisions of the SGP.

The COM projects a significant deviation from the MTO in 2017. In particular, the DBP for 2017 plans a fiscal relaxation without compensatory measures, which leads to a risk of significant deviation from the adjustment path towards the MTO in 2017. (...) the COM therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2017 budget will be compliant with the SGP" (p. 4)</td><td>"According to the information provided in the DBP, with a (recalculated) structural balance estimated at a balanced position, Cyprus is expected to remain at its MTO in 2016. This is also confirmed by the COM 2016 autumn forecast." (p. 4)</td><td>"For 2017, the (recalculated) structural balance is expected to turn into a deficit of 1.9% of GDP, pointing to a risk of a significant deviation from the requirement to be at a balanced budget in structural terms. According to the DBP, the growth rate of government expenditure, net of discretionary revenue measures, will exceed the applicable expenditure benchmark rate in 2017 (0.7%), also pointing to a significant deviation. Therefore, the overall assessment points to a risk of significant deviation in 2017, which is confirmed by the COM 2016 autumn forecast." (p. 4)</td></tr>
<tr><td colspan="2"><u>Debt rule:</u> "Following a correction of its excessive deficit in 2015, Cyprus is subject to the transition period under the debt rule for the subsequent three years (2016-2018).Based on an overall assessment of the Draft Budgetary Plan, Cyprus is making sufficient progress towards compliance with the debt criterion in 2016 and in 2017."(p. 4)</td></tr>
<tr><td colspan="3">Compliance with the structural part of the 2016 fiscal CSR</td></tr>
<tr><td>"The COM is also of the opinion that Cyprus has made some progress with regard to the structural part of the fiscal CSRs issued by the Council in the context of the 2016 European Semester and invites authorities to make further progress." (p. 4)</td><td colspan="2"></td></tr>
</table>

Compliance with the 2016 fiscal CSR	
COM Country report (2/2017)	The compliance assessment with the SGP (notably with the decisions or recommendations under the EDP) is not part of the country report of February 2017; it was conducted in May 2017 in the framework of the COM proposal for the 2017 fiscal CSR, on the basis of final data for 2016 (see below). However, the February 2017 country report states that Cyprus has made: **Limited progress** in addressing the structural part of the fiscal CSR (issued by the Council) despite the completion of the budgetary framework; **Limited progress** has been made to adopt the draft bills regarding the wage bill while no progress was made concerning the public administration reform. **No progress** was made regarding the reform of state owned enterprises and local government (...)
COM proposal for 2017 CSR (5/2017)	"(7) On 12 July 2016, following the correction of the excessive deficit, the Council recommended Cyprus to respect the MTO in 2016 and in 2017. Based on the COM 2017 spring forecast, **Cyprus is compliant with that requirement in 2017 following an overall assessment**. For 2018, Cyprus is recommended to remain at the MTO. Based on the COM 2017 spring forecast, this is consistent with a maximum nominal growth rate of net primary government expenditure13 of 0.3%, corresponding to a structural adjustment of 0.2% of GDP. **Under unchanged policies, Cyprus would be at risk of some deviation from that requirement in 2018 following an overall assessment**. **Cyprus is forecast to comply with the debt rule in 2017 and 2018. Overall, the Council is of the opinion that Cyprus needs to stand ready to take further measures to ensure compliance in 2018**." *(p. 4)*

<table>
<tr><td colspan="4">Italy
Subject to the preventive arm: Compliance with the 2016 fiscal CSR [notably: structural effort of -0.25% of GDP in 2016 and 0.6% of GDP and 2017]</td></tr>
<tr><td rowspan="6">COM DBP Opinion (11/2016)</td><td rowspan="2">Overall compliance with the SGP</td><td colspan="2">Detailed assessment of compliance</td></tr>
<tr><td>2016</td><td>2017</td></tr>
<tr><td rowspan="2">"Overall, the COM is of the opinion that the DBP of Italy, which is currently under the preventive arm and subject to the debt rule, is at risk of non-compliance with the provisions of the SGP. In particular, according to the COM 2016 autumn forecast there is a risk of significant deviation from the required adjustment path towards the MTO in 2017." (p. 6)</td><td>"In 2016, the planned (recalculated) structural deterioration of 0.6% of GDP in the DBP points to some deviation from the required adjustment towards the MTO, after the full provisional allowance granted under the structural reform and investment clause is taken into account (...).
Overall, if the allowance of 0.75% of GDP is confirmed, Italy plans some deviation from the required adjustment towards the MTO in 2016. The same conclusion is reached on the basis of the COM 2016 autumn forecast." (p. 5)</td><td>"The DBP envisages a (recalculated) structural deterioration of 0.5% of GDP in 2017, which, compared to the improvement of 0.6% of GDP or more recommended by the Council CSR, points to a risk of significant deviation from the adjustment path towards the MTO. (...)
The COM forecast also points to a risk of significant deviation from the adjustment path towards the MTO in 2017." (p. 6)</td></tr>
<tr><td colspan="2"><u>Debt rule</u>:
“On 18 May 2016, the COM issued a report under Article 126(3) TFEU, as Italy did not make sufficient progress towards compliance with the debt rule in 2015. The report concluded that, after the assessment of all relevant factors, the debt rule should be considered as complied with. Based on both the DBP and the COM forecast, the debt rule is not expected to be respected in 2016 and 2017.” (p. 5)</td></tr>
<tr><td colspan="3">Compliance with the structural part of the 2016 fiscal CSR</td></tr>
<tr><td colspan="3">"The COM is also of the opinion that Italy has made some progress with regard to the structural part of the fiscal CSRs issued by the Council in the context of the 2016 European Semester and thus invites the authorities to make further progress." (p. 6)</td></tr>
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Compliance with the debt criterion	
Art 126(3) COM report (2/2017) and COM proposal for 2017 CSR /2017)	According to the COM report (of February 2017) prepared in accordance with Art. 126(3) TFEU: *"(...) the current analysis suggests that the* ***debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as currently not complied with****. However, a decision on whether to recommend opening an EDP would only be taken on the basis of the COM 2017 spring forecast, taking into account outturn data for 2016 and the implementation of the fiscal commitments made by the Italian authorities in February 2017."* The above overall assessment by the COM includes **the assessment of all relevant factors** and notably: (i) the currently unfavourable but gradually improving macroeconomic conditions, including low inflation; (ii) the risk of non-compliance with the required adjustment towards the MTO in both 2016 and 2017 based on the Commission 2017 winter forecast; and (iii) the observed marked slowdown in the implementation of growth-enhancing structural reforms in line with the authorities' commitment. According to the assessment in the COM proposal for CSRs for Italy (of May 2017): "*In April 2017,* ***the Italian government adopted the requested additional consolidation measures*** *[note by EGOV: the requested measures amount to at least 0.2% of GDP].* ***Therefore, no further steps are deemed to be necessary for compliance with the debt criterion in 2015 at this stage****. The COM will reassess Italy's compliance with the debt criterion in autumn 2017, based on notified data for 2016 and the COM 2017 autumn forecast, which will incorporate new information on budgetary implementation in 2017 and actual budgetary plans for 2018."* (p.6)

Compliance with the 2016 fiscal CSR	
COM Country report (2/2017)	The compliance assessment with the SGP (notably with the decisions or recommendations under the EDP) is not part of the country report of February 2017; it was conducted in May 2017 in the framework of the COM proposal for the 2017 fiscal CSR, on the basis of final data for 2016 (see below). However, the February 2017 country report states that Italy has made **limited progress** in addressing the structural part of the fiscal CSR issued by the Council: - **Limited progress** has been made regarding the spending review. Some positive spending review actions have been recently implemented in Italy, yet saving targets tend to be systematically lowered or underachieved. An encompassing intervention on tax expenditures and local public enterprises, as well as the implementation of the extension of centralised public procurement to the regional level are still pending. (...) The deadline for the central government to reform the budgetary process towards a more performance-informed budgeting approach has been postponed. - **Some progress** has been made regarding privatisations. Privatisation proceeds accounted for around 0.4 % of GDP in 2015, thanks to the operation related to ENEL and the successful initial public offering of the postal operator *Poste Italiane*. For 2016, (...) significant downside risks remain (given also the recent postponement of the privatisation of *Ferrovie dello Stato* beyond 2016). - **Limited progress** has been made regarding the taxation reform (...) (pp.88/89).
COM proposal for 2017 CSR (5/2017)	*"(9) On 12 July 2016, the Council recommended Italy to achieve an annual fiscal adjustment of 0.6 % or more of GDP towards the MTO in 2017.* ***Based on the COM 2017 spring forecast, there is a risk of a significant deviation*** *from the recommended adjustment path towards the MTO in 2017 and for 2016 and 2017 taken together. That conclusion would however change to a* ***risk of some deviation, if the temporary allowance for the unusual event clause related to the exceptional inflow of refugees and to the preventive investment plan for the protection of the national territory against seismic risks (preliminarily estimated at 0.34% of GDP, overall) is deducted from the requirement in 2017****." (p. 5)*

Lithuania *Subject to the preventive arm: Compliance with the 2016 fiscal CSR [notably: ensure limited deviation from MTO [set at -1.0 of GDP]*			
	Overall compliance with the SGP	***Detailed assessment of compliance***	
		2016	**2017**
COM Opinion on updated DBP (1/2017)	"*Overall, the COM is of the opinion that the updated DBP of Lithuania, which is currently under the preventive arm, is* ***at risk of non-compliance with the provisions of the SGP****. According to the updated Commission 2016 autumn forecast, there is a risk of a significant deviation from the MTO in 2017.*" (p.5) "*In the context of the overall assessment of a possible deviation from the adjustment path towards the MTO in 2017, the COM will take into account the above considerations on Lithuania's possible eligibility for flexibility under the SGP.*" (p. 5)	"***According to the updated Draft Budgetary Plan the (recalculated) structural balance is expected to deteriorate in 2016 by 0.4% of GDP, which is less than the allowed deterioration of 0.7% of GDP. (...)*** *Therefore, the assessment of the (recalculated) updated Draft Budgetary Plan points to compliance with the provisions of the SGP in 2016. The conclusion that Lithuania is compliant with the provisions of the SGP in 2016 is confirmed by the updated Commission 2016 autumn forecast.*"(p.4)	"*For 2017, the (recalculated) projections of the updated DBP indicate that both the structural deficit and the expenditure benchmark pillars point to a risk of some deviation over one year. (...) According to the updated COM 2016 autumn forecast,* ***the structural balance is set to deteriorate by 0.4% of GDP to -1.4% in 2017, thus deviating by 0.2% from the required adjustment and pointing to a risk of some deviation. Net expenditure growth*** *in 2017 is expected to exceed the applicable benchmark rate (2.2%),* ***leading to a deviation of 0.7% of GDP and pointing to a risk of a significant deviation****. That situation calls for an overall assessment. The structural balance in 2017 is improved by temporary revenue windfalls (0.2% of GDP), mostly reflecting strong wage growth. Moreover, developments in government investment lead to a more positive reading of the fiscal effort based on the structural balance compared to the expenditure benchmark pillar. The expenditure benchmark is thus a better indicator of the underlying budgetary position. Therefore, the overall assessment points to a risk of significant deviation from the adjustment path towards the MTO in 2017, based on the updated COM 2016 autumn forecast.*" (p.5).

	Compliance with the structural part of the 2016 fiscal CSR
	"The COM is also of the opinion that Lithuania has made ***limited progress*** *in responding to the specific Council recommendations related to fiscal structural reforms. While the authorities have reduced the tax wedge by increasing the tax free income threshold, limited progress has been made on shifting the tax burden to other sources less detrimental to growth." (p.5).*

	Compliance with the 2016 fiscal CSR
COM Country report (2/2017)	The compliance assessment with the SGP (notably with the decisions or recommendations under the EDP) is not part of the country report of February 2017; it was conducted in May 2017 in the framework of the COM proposal for the 2017 fiscal CSR, on the basis of final data for 2016 (see below); However, the February 2017 country report states that Lithuania has made **some progress** in addressing the structural part of the fiscal CSR issued by the Council: **Substantial progress** has been made in reducing the tax burden on low-wage earners. Lithuania has substantially increased the non-taxable allowance for the low wage earners. Lithuania raised the non-taxable allowance and the allowance for dependent children substantially as from 2017. As a result, the tax wedge to low earners is lowered by up to 2.5 pp for households without children and by up to 3.5 pp to households with children. However, these tax measures fail to further lower the tax wedge to some of the most vulnerable households, e.g. single earners with two children or more. **Some progress** in shifting the tax burden to other sources. Measures to compensate for the revenue loss due to reduced tax burden on labour cover about a half of those losses. The diversity of new tax sources; however, is limited however as the vast majority of additional revenue comes from increase in excise taxes on cigarettes and alcohol. **Some progress** in improving tax compliance. Lithuania has adopted a number of measures that are expected to improve its analytical and tax collection ability substantially. The actual impact on tax collection of these efforts; however is yet to be seen. During 2016 Lithuania introduced an electronic invoicing system and an electronic waybill system.(p. 38).
COM proposal for 2017 CSR (5/2017)	"*(8) On 12 July 2016, for 2017 the Council recommended Lithuania to ensure that the deviation from the MTO is limited to the allowance linked to the systemic pension reform. Taking into account the allowances linked to the pension reform granted for 2016 and the temporary deviation linked to the implementation of structural reforms granted for 2017, the structural balance would be allowed to deteriorate by 1.3% of GDP in 2017. Based on the COM 2017 spring forecast Lithuania is projected to comply with this requirement in 2017. In 2018, Lithuania should achieve its MTO, taking into account the allowances related to the implementation of the systemic pension reform granted for 2016 and the structural reform granted for 2017, as temporary deviations are carried forward for a period of three years. Based on the COM 2017 spring forecast, this is consistent with a maximum nominal growth rate of net primary government expenditure of 6.4% in 2018, corresponding to a deterioration in the structural balance of -0.6% of GDP. Under unchanged policies, Lithuania is projected to comply with this requirement in 2018. Overall,* ***the Council is of the opinion that Lithuania is projected to comply with the provisions of the Stability and Growth Pact in 2017 and 2018****."(p.4)*

Slovenia ***Subject to the preventive arm: Compliance with the 2016 fiscal CSR [notably: "achieve an annual fiscal adjustment of 0,6 % of GDP (...) in 2016 and in 2017"]***			
	Overall compliance with the SGP	***Detailed assessment of compliance***	
		2016	**2017**
COM DBP Opinion (11/2016)	"*Overall, the COM is of the opinion that the DBP of Slovenia, 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 2017. The COM 2016 autumn forecast for 2017 projects a significant deviation from adjustment path towards the MTO over 2016 and 2017 taken together. (...) the COM therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2017 budget will be compliant with the SGP rules.*" (p. 6)	"***The DBP implies an unchanged structural balance in 2016, as recalculated by the COM, before a 0.4% of GDP improvement planned in 2017. The COM 2016 autumn forecast envisages a slight worsening of the structural balance in 2016 (from 1.9% to 2.1% of GDP), deteriorating further in 2017 (by 0.2% of GDP to 2.3% of GDP).** The difference in 2017 is due to a higher general government deficit in the COM 2016 autumn forecast and the smaller amount considered as one-offs.*"(p. 3) "*According to the information provided in the DBP, at face value, the planned adjustment in the Draft Budget Plan for 2016 is in line with the required adjustment towards the MTO. However, the recalculated structural balance points at significant deviation in 2016. (...) In light of this, based on the information provided in the DBP, Slovenia appears to comply with the required adjustment towards the MTO in 2016. The same arguments are valid for the overall assessment based on the COM 2016 autumn forecast.*" (p. 5)	"*In 2017, **according to the information provided in the DBP, the recalculated structural improvement of 0.4% of GDP is below the required effort of 0.6% of GDP leading to some deviation based on the structural balance pillar**."* (p.5) "*Therefore, based on the DBP, Slovenia appears to comply with the required adjustment towards the MTO in 2017 as well as in 2016 and 2017 together. However, based on the COM 2016 autumn forecast, **the projected 0.2% of GDP deterioration in the structural balance in 2017 points to a risk of significant deviation from the required 0.6% of GDP adjustment towards the MTO**.(...)* *Therefore, the overall assessment indicates a risk of significant deviation in 2017 as a result of the cumulated deviations in 2016 and 2017.*" (p. 5)
		<u>Debt rule:</u> "*The DBP does not provide sufficient information to assess compliance with the minimum linear structural adjustment. Based on the COM 2016 autumn forecast, **Slovenia is expected to make sufficient progress towards compliance with the debt criterion in both years.** In 2016, Slovenia makes sufficient progress as the projected change in the structural balance (-0.2% of GDP) is above the requirement (-0.6% of GDP). The same applies to 2017, when the projected change in the structural balance (-0.2% of GDP) is again above the requirement (-0.8% of GDP).*" (p. 5)	

	Compliance with the structural part of the 2016 fiscal CSR
	"The COM is also of the opinion that Slovenia has made ***limited progress with regard to the structural part of the fiscal CSRs*** *issued by the council in the context of the 2016 European Semester and invited the authorities to accelerate the process."(*p.6)
Compliance with the 2016 fiscal CSR	
COM Country report (2/2017)	The compliance assessment with the SGP (notably with the decisions or recommendations under the EDP) is not part of the country report of February 2017; it was conducted in May 2017 in the framework of the COM proposal for the 2017 fiscal CSR, on the basis of final data for 2016 (see below). However, the February 2017 country report states that Slovenia has made **limited progress** in addressing the structural part of the fiscal CSR issued by the Council: • **Limited progress** was made regarding the fiscal framework. The revised Public Finance Act was adopted by the Parliament in December 2016, but the appointment of the Fiscal Council was further delayed. Following three unsuccessful public calls for applicants, the Government will have to restart an open call for applications to find members for the Fiscal Council. • **Limited progress** was made regarding long-term care reform. The pilot project to determine long-term care needs and support proposed legislative solutions is being prepared. • **Some progress** was made regarding healthcare reform. The proposed draft Health Care and Health Insurance Act, which is the central piece of the reform, has been put into public consultations in February 2017 and will be forwarded to the National Assembly in 2017. In December 2016, also the proposals to amend the Health Services Act and the Patient Rights Act were presented and the new Pharmacies Act was adopted. • **Limited progress** has been made regarding the long-term sustainability and adequacy of pension system. The White Paper on pensions was adopted in April 2016 and has opened a wide public consultation on the future of the pension system. However, the White Paper on pensions is a non-legislative act that needs to be followed up with adoption of legislative acts, needed to address the 2016 CSR. (pp. 48/49)
COM proposal for 2017 CSR (5/2017)	*"(8) On 12 July 2016, the Council recommended Slovenia to achieve an annual fiscal adjustment of at least 0.6% of GDP towards the MTO in 2017. Based on the COM 2017 spring forecast, there is a* ***risk of some deviation*** *from that requirement in 2017."* (p.4) *(9) In 2018, in the light of its fiscal situation and notably 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.* ***Under unchanged policies, there is a risk of a significant deviation from that requirement in 2018****. Slovenia is projected to comply with the debt rule in 2017 and 2018. Overall, the Council is of the opinion that* ***Slovenia needs to stand ready to take further measures in 2017 and that further measures will be needed in 2018 to comply with the provisions of the SGP****. However, as foreseen in Regulation (EC) No 1466/97, the assessment of the budgetary plans and outcomes should take account of the Member State's budgetary balance in the light of the cyclical conditions. As recalled in the COM Communication accompanying these CSRs, the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal to achieve a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of Slovenia's public finances. In that context, the COM intends to make use of the applicable margin of appreciation in the light of the cyclical situation of Slovenia. Furthermore, there is significant uncertainty regarding the cyclical position in the specific case of Slovenia because of the particularly large economic contraction in 2008-2013 and the major structural and financial sector reforms being implemented." (pp. 5/6)*

Finland

Subject to the preventive arm: Compliance with the 2016 fiscal CSR [notably: structural effort "of at least 0,5 % of GDP (...) in 2016 and 0,6 % in 2017"]

<table>
<tr><td rowspan="5">COM DBP Opinion (11/2016)</td><td rowspan="2">Overall compliance with the SGP</td><td colspan="2">Detailed assessment of compliance</td></tr>
<tr><td>2016</td><td>2017</td></tr>
<tr><td rowspan="2">"Overall, the COM is of the opinion that the DBP of Finland, which is currently under the preventive arm, is at risk of non-compliance with the provisions of the SGP. In particular, according to the COM 2016 autumn forecast there is a risk of significant deviation from the required adjustment path towards the MTO in 2017." (p. 5)</td><td>"Based on the DBP, the recalculated structural balance is projected to worsen by 0.1% in 2016, pointing to a significant deviation (0.6% of GDP) from the preventive arm requirement." (p. 4)
"On balance, the overall assessment points to a risk of some deviation from the required adjustment towards the MTO. If the current estimate of the budgetary impact in 2016 of the exceptional inflow of refugees were deducted, the assessment would point to compliance. The overall assessment based on the COM forecast confirms the results of the assessment for 2016 based on the DBP."(p. 5)</td><td>"In 2017, the DBP projects a 0.3% of GDP worsening in the recalculated structural balance, pointing to risk of significant deviation (gap of 0.9% of GDP) from the required adjustment in 2017. (...)
The overall assessment concludes on a risk of significant deviation from the adjustment path towards the MTO. The analysis based on the COM 2016 autumn forecast broadly confirms these results." (p. 5)</td></tr>
<tr><td colspan="2"><u>Debt rule:</u> "On 18 May 2016, the COM issued a report under Article 126(3) of the TFEU, as Finland's general government debt exceeded 60% of GDP in 2015. The report concluded that, after the assessment of all relevant factors, the debt criterion should be considered being complied with." (p. 4)</td></tr>
<tr><td colspan="3">Compliance with the structural part of the 2016 fiscal CSR

"The COM is also of the opinion that Finland has made some progress with regard to the structural part of the fiscal CSRs issued by the Council in the context of the 2016 European Semester and invites the authorities to make further progress." (p. 6)</td></tr>
</table>

	Compliance with the 2016 fiscal CSR
COM Country report (2/2017)	The compliance assessment with the SGP is not part of the country report; it will be conducted in Spring 2017, when final data for 2016 will be available. However, the February 2017 country report states that Lithuania has made **some progress** in addressing the structural part of the fiscal CSR issued by the Council: **Some progress** has been made on the adoption and implementation of the social and healthcare reform. The reform has been undertaken in order to ensure the continued access to the good quality services while ensuring the long-term sustainability of public finances. The government has prepared the first half of the draft legislation that is needed for the reform to take effect from 2019. The 27 draft laws have undergone a public consultation. Legislation regarding the freedom of choice for the citizens was not part of the public consultation. The work needs to continue, but thanks to the timely preparation of the legislation creating the new administrative structure, it can be concluded that there is some progress in implementing the recommendation. (pp. 41/42)
COM proposal for 2017 CSR (5/2017)	*"(12) On 12 July 2016, the Council recommended Finland to achieve an annual fiscal adjustment of at least 0.6% of GDP towards the MTO in 2017. While ensuring a continued respect of the minimum benchmark (i.e. a structural deficit of 1.1% of GDP), the COM 2017 spring forecast indicates scope for an additional temporary deviation of 0.6% of GDP* ***in 2017*** *under the structural and investment clauses. On that basis, the structural balance would be allowed to deteriorate by 0.5% of GDP in 2017. Based on the COM 2017 spring forecast,* ***Finland would be compliant with the preventive arm requirements****. If the current updated estimate of the decrease of the budgetary impact in 2017 stemming from the exceptional inflow of refugees were taken into account, the conclusion of the overall assessment would not change. For 2018, Finland should achieve its MTO, taking into account the allowance in relation to unusual events (granted for 2016) as well as the allowances related to the implementation of the structural reforms and investments (granted for 2017). Based on the COM 2017 spring fore-cast, this is consistent with a maximum nominal growth rate of net primary government expenditure[16] of 1.6%, corresponding to an annual structural adjustment of 0.1% of GDP. Under unchanged policies, Finland would be* ***compliant with the preventive arm requirements in 2018****. If the current updated estimate of the decrease of the budgetary impact in 2017 stemming from the exceptional inflow of refugees were taken into account, the conclusion of the overall assessment would not change. At the same time, Finland is prima facie forecast not to comply with the debt reduction benchmark in 2017 and 2018 [EGOV: see conclusion of Art 126(3) report below]. Overall, the Council is of the opinion that Finland needs to stand ready to take further measures to ensure compliance."* (p. 5)
	Compliance with the debt criterion
Art 126(3) COM report (2/2017) COM proposal for 2017 CSR	*"The general government gross debt decreased slightly from 63.7% in 2015 to 63.6% of GDP in 2016, but remained above the Treaty reference value. (...) The COM 2017 spring forecast projects gross debt above the reference value, at 65.5% of GDP in 2017 and 66.2% in 2018, based a no-policy-change assumption. This suggests that* ***before consideration is given to all relevant factors, the debt criterion as defined in the Treaty does not appear to have been fulfilled prima facie in 2016. In line with the Treaty, this report also examined the relevant factors****.* ***(...)*** *The debt corrected for the effects of the cycle would remain just below 60% of GDP in 2016. Moreover, Finland has made some progress in implementing structural reforms, notably by addressing its 2016 CSRs in the area of cost competitiveness. These reforms are expected to contribute to enhancing the economy's growth potential and reducing the risks of macroeconomic imbalances, thereby having a positive impact on debt sustainability in the medium to long term. (...)* ***In concluding, the current analysis suggests that the debt criterion (...) should be considered as currently complied with.*** *However, Finland's debt-to-GDP ratio has been on an increasing trend, and it is forecast to continue rising over the medium term under a no-policy-change assumption. The swift adoption and implementation of structural reforms increasing productivity and the supply of labour are key to enhance Finland's growth prospects in the medium term, which would contribute to improve fiscal sustainability."* (p. 14).

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: 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.

<u>Issuance of sanctions</u>

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