IN-DEPT ANALYSIS

Economic Dialogue with the Commission on the 2020 Draft Budgetary Plans

ECON on 27 January 2020

Vice-president Dombrovskis and Commissioner Gentiloni have been invited to an Economic Dialogue on the European Commission Opinions on the 2020 Draft Budgetary Plans of the Euro Area Member States. The Dialogue is based on Articles 7 and 15 of EU Regulation 473/2013.

In accordance with Regulation 473/2013, euro area Member States which are not subject to a macro-economic adjustment programme shall submit annually their **Draft Budgetary Plan** (DBP) for the forthcoming year to the European Commission (COM) and the Eurogroup by 15 October. All 18 euro area Member States submitted their 2020 DBPs in October 2019 (Austria, Belgium, Portugal and Spain submitted DBPs with the assumption of no-policy changes, due to the ongoing government formation processes; Portugal submitted its updated DBP in January 2020). On the basis of its autumn 2019 forecast, the COM issued on 20 November 2019 its Opinions on all of them (see also COM overall assessment) and on 15 January 2020 on the updated DBP of Portugal.

Box 1: Autumn Budgetary Surveillance

The objective of submitting DBPs to the COM and the Eurogroup is to enable an **enhanced monitoring of national budgetary policies** in the euro area and ensure that the national budgets are consistent with the economic policy recommendation issued in the context of the SGP and the European Semester for economic policy coordination.

This autumn surveillance of the DBPs **is complementary and linked** to other EU economic governance procedures i.e.:

(1) The COM assesses in its DBP Opinions the extent to which Member States have implemented the Country-Specific Recommendations, in particular the compliance with their Medium-Term Objective (MTO) or with the adjustment path towards it;

(2) For Member States subject to the Excessive Deficit Procedure (EDP), the COM assesses the compliance with the latest EDP recommendation.

This year, **no DBP shows particularly serious non-compliance** with the requirements of the SGP for 2020. The DBPs of **nine Member States** – Germany, Ireland, Greece, Cyprus, Lithuania, Luxembourg, Malta, the Netherlands and Austria – are assessed to be **compliant** with the SGP; **two Member States** – Estonia and Latvia – are **broadly compliant** and for **eight Member States** – Belgium, Spain, France, Italy, Portugal, Slovenia, Slovakia and Finland – the plans pose a **risk of non-compliance** with the SGP next year.

The **differences** between the current COM opinions to the ones of the previous year are: (1) Italy moved from being a "particular serious case of non-compliance" to "risk of non-compliance"; (2)

ECONOMIC GOVERNANCE SUPPORT UNIT
Authors: J. Angerer and M. Sabol
Directorate-General for Internal Policies
PE 645.705- January 2020

EN

Slovakia moved from "broadly compliant" to "risk of non-compliance" and Finland moved from "compliance" to "risk of non-compliance"; in a nutshell: compared to the opinions issued end of 2018, one country improved and two countries worsened.

The COM assessments of "risk of non-compliance" are mainly based on the following grounds (see Annex 1 for more details): While Belgium, Italy, Spain, France, Finland and Slovaka are assesessed to have **significant deviations** both with regard to the required adjustment in the structural balance as with the expenditure benchmark, for Slovenia and Portugal the **risks of non-compliance** are based on significant deviations with regard to the expenditure benchmark only. As regards the **debt rule**, the COM assesses non-compliance for Belgium, Spain, France and Italy. Slovenia, Finland and Slovaka are projected to have debt-to-GDP ratios below the Treaty reference value (60% of GDP) and are therefore compliant with that rule. Portugal, whose debt is much above the reference value "*is projected to make sufficient progress towards compliance with the debt reduction benchmark in 2019 and the debt reduction benchmark is projected to be met in 2020*".

When finalising the opinions, the COM sent letters to Belgium, Spain, France, Italy, Portugal and Finland asking them for further clarification or requesting measures that would ensure compliance. In these letters, the COM noted that in 2020 these countries seem to be at risk of significant deviation from both the fiscal effort and the maximum growth of primary government expenditure as required in the Council recommendations of July 2019. Furthermore, the COM indicaded to Belgium, France and Italy that the projections in their DBPs do not ensure compliance with the debt reduction benchmark in 2020. France, Italy and Finland replied to these letters. France and Finland acknowledged the significant deviations and argued that they are justified due to structural reforms; Italy presented *inter alia* its own calculations according to which the deviation would not be significant.

Box 2: Entry into force of the debt reduction benchmark

EU Regulation 1467/97 stipulates that the debt reduction benchmark (which is relevant for countries with public debt above 60% of GDP) is applicable after **a transition period of three years from the correction of the excessive deficit**, if the country was in an EDP at the entry in force of the regulation (i.e. on 8 November 2011). Member States **within the transition period have to comply with a so-called Minimum Linear Structural Adjustment** (defined on p. 12 of current Code of Conduct on the SGP implementation and on pages 49-50 of the 2019 Vademecum on the SGP). The state of play is as follows:

- Finland (not in EDP on 8/11/2011): the debt rule is applicable without transition period since the entry in force of the regulation.

For the following countries, transition periods exist(ed), since they were in EDP on 8 November 2011:

- Germany and Malta: expiration of the transition period in the end of 2014.

- Italy: expiration of the transition period in the end of 2015.

- Belgium, Austria and the Netherlands: expiration of the transition period in the end of 2016.

- Ireland, Cyprus and Slovenia: the transition periods expired in the end of 2018.

- Portugal and Greece: expiration of the transition period end of 2019.

- Croatia, which entered the EU after the entry in to force of the regulation and whose deficit is not any more excessive since 2016, the debt rule is applicable without a transition period.

- France (deficit not excessive since 2017): the transition period will expire end of 2020.

- Spain (deficit not excessive since 2018): the transition period will expire end of 2021.

On 4 December 2019, the **Eurogroup** discussed the COM opinions on the 2020 DBPs of euro area Member States and published a statement, in which:

- It **takes notes** of the COM assessments of the 2020 DBPs and reiterates them.
- It expresses the opinion that "the euro area economy is facing an **elevated level of uncertainty**. If downside risks were to materialise, **fiscal responses should be differentiated**, taking into account country-specific circumstances and **avoiding pro-cyclicality** to the extent possible. The Eurogroup stands ready to co-ordinate."

- It states that 'there is still a need to rebuild fiscal buffers in **Member States that have not reached their Medium-Term Budgetary Objectives** (MTO). The Eurogroup reiterates that a slow pace of debt reduction from high levels in a number of Member States remains a matter for concern and should be decisively addressed, including by making use of windfall gains from low interest rates. In this context, the continued fiscal expansion or limited structural fiscal adjustment expected in some Member States in 2020 is worrying, in particular when coupled with high medium-term sustainability risks. The Eurogroup recalls in this context that the focus on sufficient debt reduction and the adjustment towards the MTO are an integral part of the SGP.
- It welcomes that, as invited, some **Member States with a favourable budgetary situation** have made use of it and plan to use it further to boost investment and growth, while preserving the long-term sustainability of public finances."

On 20 January 2020, the Eurogroup discussed the COM opinion of 15 January 2020 on the updated 2020 DBP of Portugal. In its related statement, the Eurogroup took note of the COM assessment that the DBP of Portugal might result in a significant deviation from the adjustment path towards its MTO. However, it also noted that "*Portugal's MTO is within reach and Portugal continues to comply with the debt rule.*" It invited Portugal to consider in a timely manner the necessary additional measures to address the risks identified by the COM.

The adjustment requirements under the SGP are set in **structural terms**, especially in the preventive arm.[1] **Table 1** overleaf shows the changes in the structural balances as forecast by the COM and the structural efforts recommended by the Council under the preventive arm of SGP. While this comparison indicates that Germany, Estonia, Ireland, Lithuania, Luxembourg, Malta and the Netherlands are in line with the recommended effort by the Council, it does not *prima facie* mean that the other countries would be in breach of the respective Council recommendations. The assessment of compliance includes other aspects than the change in the structural balance, such as: the magnitude of deviations, bottom-up assessments of individual measures, compliance with expenditure benchmarks, change in the primary structural balance (structural balances adjusted by interest payments) and relevant factors such as the implementation of reforms with a positive impact on the growth potential.

When **comparing the Commission autumn 2019 forecast with the figures included in the 2020 DBPs,** one notes that Member States are in general more optimistic than the Commission. For 2019, significant differences between Member States' and Commission forecasts occur notably for (1) the structural budget balance for Slovenia and Italy and (2) the public debt for Belgium, Greece and Cyprus. For 2020, significant differences occur notably for (1) the public debt for Cyprus, Ireland, Belgium, Spain, Latvia, Italy and Greece and (2) the structural balance for Slovakia, Italy, Spain, Slovenia and the Netherlands. A separate EGOV note provides details on these comparisons.

[1] For more information on the methodology, see EGOV briefings "Structural Budget Balances in EU Member States - November 2019" and "Potential Output Estimates and their Role in the EU Fiscal Policy Surveillance"

Table 1: Structural efforts and commitments under the SGP in 2019 and 2020

		In 2019 (based on 2018 CSRs)	In 2020 (based on 2019 CSRs)	In 2019		In 2020	
				pp	sbp	pp	sbp
BE	0.0 sbp	0.6 pp	0.6 pp	-0.3 pp	-2.1 sbp	-0.3 pp	-2.4 sbp
DE	-0.5 sbp	In line with its MTO	In line with its MTO	-0.3 pp	1.1 sbp	-0.4 pp	0.7 sbp
EE	-0.5 sbp	0.6 pp	0.6 pp	0.6 pp	-1.6 sbp	0.7 pp	-0.9 sbp
IE	-0.5 sbp	0.1 pp	In line with its MTO	-0.2 pp	-0.8 sbp	0.5 pp	-0.3 sbp
EL	0.25 sbp	n.a.	n.a.	-2.1 pp	3.0 sbp	-1.2 pp	1.8 sbp
ES	0.0 sbp	0.65 pp	0.65 pp	-0.2 pp	-3.1 sbp	-0.1 pp	-3.2 sbp
FR	-0.4 sbp	0.6 pp	0.6 pp	0.0 pp	-2.7 sbp	0.1 pp	-2.6 sbp
IT	0.5 sbp	0.6 pp	0.6 pp	0.2 pp	-2.2 sbp	-0.3 pp	-2.5 sbp
CY	0.0 sbp	In line with its MTO	In line with its MTO	-0.2 pp	1.7 sbp	-1.1 pp	0.6 sbp
LV	-1.0 sbp	0.4 pp	0.5 pp	0.3 pp	-1.6 sbp	0.5 pp	-1.1 sbp
LT	-1.0 sbp	In line with its MTO	In line with its MTO	-0.8 pp	-1.6 sbp	0.7 pp	-0.9 sbp
LU	0.5 sbp	In line with its MTO	In line with its MTO	-0.4 pp	1.6 sbp	-0.8 pp	0.8 sbp
MT	0.0 sbp	In line with its MTO	In line with its MTO	-0.3 pp	0.5 sbp	0.3 pp	0.8 sbp
NL	-0.5 sbp	In line with its MTO	In line with its MTO	-0.2 pp	0.7 sbp	-0.5 pp	0.2 sbp
AT	-0.5 sbp	0.3 pp	In line with its MTO	0.3 pp	0.0 sbp	0.0 pp	0.0 sbp
PT	0.0 sbp	0.6 pp	0.5 pp	0.2 pp	-0.4 sbp	0.0 pp	-0.4 sbp
SI	-0.25 sbp	0.65 pp	0.5 pp	-0.3 pp	-1.0 sbp	0.1 pp	-0.9 sbp
SK	-1.0 sbp	0.5 pp	0.3 pp	0.1 pp	-1.6 sbp	-0.2 pp	-1.8 sbp
FI	-0.5 sbp	-0.2 pp	0.5 pp	-0.4 pp	-1.4 sbp	-0.2 pp	-1.6 sbp
BG	-1.0 sbp	In line with its MTO	In line with its MTO	-0.8 pp	1.0 sbp	-0.4 pp	0.6 sbp
CZ	-0.75 sbp	In line with its MTO	In line with its MTO	-0.8 pp	-0.3 sbp	-0.1 pp	-0.4 sbp
DK	-0.5 sbp	In line with its MTO	In line with its MTO	1.1 pp	2.1 sbp	-0.7 pp	1.4 sbp
HR	-1.0 sbp	In line with its MTO	In line with its MTO	-0.5 pp	-0.8 sbp	-0.2 pp	-1.0 sbp
HU	-1.0 sbp	1.0 pp	0.75 pp	0.5 pp	-3.3 sbp	1.2 pp	-2.1 sbp
PL	-1.0 sbp	0.6 pp	0.6 pp	-0.8 pp	-2.2 sbp	0.3 pp	-1.9 sbp
RO	-1.0 sbp	1.0 pp	0.75 pp	-0.8 pp	-3.5 sbp	-0.9 pp	-4.4 sbp
SE	-1.0 sbp	In line with its MTO	In line with its MTO	-0.1 pp	0.2 sbp	0.2 pp	0.4 sbp
UK	-0.50 sbp	0.6 pp	0.6 pp	0.2 pp	-2.4 sbp	-0.1 pp	-2.5 sbp

Sources: 2019 SCPs, COM assessments of 2019 SCPs and 2019 CSRs for the level of the MTOs (minimum MTO calclulated by the COM for the UK); SDP for Hungary and Romania; COM autumn 2019 forecast for the projected structural budget balances. Notes: In the case a Member State does not have a quantitative fiscal effort request for 2019 and/or 2020, it is indicated in the table as being "in line with its MTO" (this may cover cases (1) where the actual structural budget balance is above the target or (2) below the target due to temporar flexibility or (3) only with a minor deviation below the target). This table does not prejudge the assessment an overall compliance assessment by the COM, which follows an EU methodology that takes into account more aspects than the change in the structural balance. For Greece, "not applicable (n.a.)" reflects that the country was in 2018 not subject to CSRs and that the 2019 fiscal CSR for Greece states: *"Achieve a sustainable economic recovery and tackle the excessive macroeconomic imbalances by continuing and completing reforms in line with the post-programme commitments given at the Eurogroup of 22 June 2018"; the post programme commitments include a primary suplus target of 3.5% of GDP;* according the the COM autumn 2019 forecast, Greece has a primary balance of 4.3% in 2019 and 3.7% in 2020.

Another EGOV note provides an **overview of the role played by independent national fiscal bodies in the preparations of national public budgets**. Key findings are: (1) all euro area Member States have one or several operational independent fiscal bodies in place; (2) all the macro-economic forecast underlying the 2020 DBPs have been produced or endorsed by these independent fiscal bodies (in 6 euro area countries, the forecasts were produced by the independent bodies while in 12 euro area countries, the forecasts were endorsed by the independent bodies).

The **European Court of Auditors** has recently published a report that assesses whether the EU requirements for national budgetary frameworks are adequate and well implemented. It focuses on the EU fiscal rules and the assessments of compliance carried out by independent national fiscal bodies, the Commission and the European Fiscal Board. The **European Fiscal Board** had published in August 2019, upon request of the then Commission President Juncker, its Assessment of the EU fiscal rules, with a focus on the "six and two pack" legislation. (See Box 7).

Upcoming reviews of the key legislation: The 'six pack' and 'two pack' regulations require the Commission to prepare periodic reports to evaluate their application. These assessments take place every five years and aim to evaluate, inter alia, the effectiveness of the regulations and the progress made to ensure closer coordination of economic and fiscal policies and the sustained convergence of economic and fiscal performance. The next review was due by December 2019 but, owing to delays to the confirmation of the newly established Commission, is now expected to take place in February 2020.

Further readings:

- Implementation of the Stability and Growth Pact - January 2020
- The role of independent fiscal bodies - state of play - January 2020
- Structural budget balances in EU Member States – November 2019
- Public finances in Euro Area Member States: selected indicators - November 2019
- The advisory European Fiscal Board - November 2019

Box 3: - Recent institutional assessments of EU fiscal rules

The **European Court of Auditors** published in December 2019 a report entitled "EU requirements for national budgetary frameworks: need to further strengthen them and to better monitor their application on EU fiscal governance". The report identified a risk of divergence between the Commission's and the Independent Fiscal Institutions' assessments, which could reduce the effectiveness of the EU fiscal framework. According to the report, a major reason is that that the Commission makes "*extensive use of its margin of discretion when assessing compliance with the EU fiscal rules (i.e. compliance with the adjustment path towards the MTO)*". It recommended that the COM reviews EU requirements for national budgetary frameworks, enhances its assessments of how Member States implement these requirements, improves co-operation with Independent Fiscal Institutions and strengthens the European Fiscal Board. The Commission accepted all but one recommendations, namely on the strengthening of the European Fiscal Board, since it considers that it is analytically and functionally independent.

In its report of August 2019, entitled "Assessment of EU fiscal rules - with a focus on the six and two-pack legislation"[1], the **European Fiscal Board** analysed Member States' compliance with the various fiscal rules in place within the EU. It concluded that compliance had been mixed. The 2019 Annual report of the EFB (of October 2019) focused on implementation of the fiscal rules in the 2018 surveillance cycle (ending with Commission assessments of implementation in February 2019). It highlighted that the Commission established some new elements of flexibility and discretion which made for a couple of countries (Italy, Slovenia, Latvia, Portugal, Slovakia and Belgium) the Commission's assessments more lenient.

Annexes:

1. Overview of the European Commission's opinions on 2020 DBPs of countries at risk of non-compliance with the Stability and Growth Pact
2. Fiscal sustainability indicators
3. Key macroeconomic indicators

Contact: egov@ep.europa.eu

This document is available on the internet at: www.europarl.europa.eu/supporting-analyses

Annex 1: Overview of the European Commission’s opinions on 2020 DBPs of countries at risk of non-compliance with the Stability and Growth Pact

The following table summarises the European Commission’s (COM) **opinions on the 2020 Draft Budgetary Plans** (DBP) which are judged to be at risk of non-compliance with the Stability and Growth Pact (SGP). Please note that the current Council recommendations under the SGP are available in a separate EGOV briefing “Implementation of the SGP”.

According to the categories used by the COM, “*risk of non-compliance*” means:

- Under the Excessive Deficit Procedure (EDP): The COM forecast, if confirmed *ex post*, could lead to the stepping up of the EDP as the fiscal effort is not projected to be delivered and the nominal target of below 3 % is expected to be missed.

- Under the preventive arm of SGP: The COM projects a significant deviation from the required adjustment path towards the MTO and/or non-compliance with the debt reduction benchmark, if applicable.

The COM opinions include assessments of fiscal effort/effective action, which follow a methodology agreed by Council and the COM. The last update of the methodology was published in May 2017. In accordance with this methodology, all relevant data used by the COM, including data on the yields of discretionary fiscal measures, are shared with the Member States in a timely manner, enabling them to replicate the calculation underlying the COM's assessments and recommendations. Furthermore, the "terms of reference" specify in detail the “**top down**” and “**bottom up**” approaches used in the assessment of effective action by the COM.

Table: Overview of the COM opinions on 2020 DBP of countries with overall risks of non-compliance with the SGP

<table>
<tr><th rowspan="2"></th><th>Overall compliance with current Council recommendations under SGP</th><th colspan="2">Detailes of the Commission assessments as regards compliance with current Council SGP-recommendations</th></tr>
<tr><th>Overall compliance with the fiscal-structural part of the Council CSRs</th><th>2019</th><th>2020</th></tr>
<tr><td colspan="4">Euro area Member States subject to an EDP (corrective arm of the SGP)
Member States subject to EDP: compliance with nominal target and/or fiscal effort as requested by Council EDP- recommendations</td></tr>
<tr><td colspan="4">No euro area Member State is currently subject to an EDP</td></tr>
<tr><td colspan="4">Euro area Member States subject to the preventive arm of the SGP
Member States subject to the preventive arm: compliance with MTO (or adjustment path towards MTO), the expenditure benchmark and with the (transitional) debt rule as requested by the relevant Council CSR-recommendation</td></tr>
<tr><td rowspan="2">Belgium</td><td>"Overall, while acknowledging the no-policy-change nature of its projections, the Commission is of the opinion that the DBP of Belgium is at risk of non-compliance with the provisions of the SGP." (p. 3)

"In particular, the COM projects a risk of significant deviation from the required adjustment towards the MTO in 2019 and 2020. (...)The COM invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2020 budget will be compliant with the SGP (...)". (p. 3)</td><td>"The DBP Plan indicates a gap to the expenditure benchmark of 0.8% of GDP in 2019, pointing to a risk of significant deviation in 2019. The structural balance points to a risk of some deviation in 2019 (gap of 0.4% of GDP)." (p.2)

"Taking into account the positive impact of revenue windfalls on the structural balance, the overall assessment points to a risk of significant deviation from the recommended adjustment path towards the MTO in 2019. The Commission 2019 autumn forecast confirms this conclusion." (p. 2)</td><td>"The DBP indicates a gap to the expenditure benchmark of 1.5% of GDP in 2019 and of 1.1% of GDP on average over 2019 and 2020 taken together, pointing to a risk of a significant deviation in 2020." (p.2)

"The structural balance also points to a risk of significant deviation from the recommended structural adjustment in 2020 (gap of 0.8% of GDP) and on average over 2019 and 2020 taken together (gap of 0.6% of GDP). Those conclusions are confirmed by the Commission 2019 autumn forecast." (p.2)</td></tr>
<tr><td colspan="3"><u>Assessment of compliance with the debt rule:</u> "As its public debt, at 100% of GDP in 2018, exceeds the 60% of GDP reference value of the Treaty, Belgium also needs to comply with the debt reduction benchmark." (p. 1) (...) It should be noted that compared to the DBP, the Commission 2019 autumn forecast uses more recent and upwardly revised data for nominal GDP in 2018, which contributed to a lower projection of the debt-to-GDP ratio.The DBP does not include sufficient information</td></tr>
</table>

	to assess compliance with the **debt reduction benchmark**. **Based on the Commission 2019 autumn forecast**, t**he debt reduction benchmark is not projected to be met in 2019 and 2020**, with gaps of 1.5% and 2.7% of GDP respectively." (p. 3)		
	Assessment of compliance with the fiscal structural-part of the 2019 CSR: "The Commission is also of the opinion that Belgium **has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019** in the context of the European Semester and thus invites the authorities to accelerate progress." (p. 3)		
Spain	"Overall, while acknowledging the no-policy-change nature of its projections, the Commission is of the opinion that the DBP of Spain is **at risk of non-compliance with the provisions of the SGP**. In particular, the Commission projects a **risk of significant deviation from the required adjustment path to the medium-term budgetary objective**. **Moreover, Spain is not expected to make sufficient progress towards compliance with the debt reduction benchmark in 2019 and 2020**. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2020 budget will be compliant with the SGP."(p. 4)	"According to the information provided in the DBP, the **growth rate of government expenditure, net of discretionary revenue measures, will in 2019 exceed the applicable expenditure benchmark rate, leading to a deviation of 0.8% of GDP**. The DBP points to an **improvement in the (recalculated) structural balance of 0.1% of GDP, implying a deviation from the recommended improvement of 0.6% of GDP.** Thus, both indicators point to a risk of significant deviation in 2019. This conclusion is **confirmed based on the Commission 2019 autumn forecast, which points to even wider gaps of 1.2% of GDP regarding the expenditure benchmark and 0.9% of GDP regarding the improvement in the structural balance**." (p. 3)	"**The DBP indicates a deviation of 1.0% of GDP in 2020, and of 0.9% of GDP on average over 2019 and 2020 taken together, from the expenditure benchmark.** The DBP points to **an improvement in the (recalculated) structural balance of 0.1% of GDP, implying a deviation from the recommended improvement of 0.6% of GDP in 2020 and on average over 2019 and 2020 taken together**. Thus, both indicators point to a risk of significant deviation in 2020 based on the no-policy-change DBP." (p. 3) "This conclusion **is confirmed based on the Commission 2019 autumn forecast, which points to even wider gaps of 1.2% of GDP regarding the expenditure benchmark and 0.8% of GDP regarding the improvement in the structural balance** (with two-year average deviations of 1.2% and 0.8%, respectively)." (p. 3)
	Assessment of compliance with the debt rule: "The DBP indicates that the government debt-to-GDP ratio will decline from 97.6% in 2018 to 95.9% in 2019 and to 94.6% in 2020, below the Commission's projection of 96.6% for 2020. The DBP does not include sufficient information to assess compliance with the transitional debt rule. According to the Commission 2019 autumn forecast, **Spain is not expected to make sufficient progress towards compliance with the debt reduction benchmark in 2019 and 2020**, which would require an improvement of the structural balance of 0.5% and 1.0% of GDP in 2019 and 2020, respectively." (p.3)		
	Assessment of compliance with the fiscal structural-part of the 2019 CSR: "The Commission is also of the opinion that Spain **has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019** in the context of the European Semester. It thus invites the authorities to accelerate progress." (p. 4)		

Italy	*"Overall, the Commission is of the opinion that the DBP of Italy is **at risk of non-compliance with the provisions of the SGP**."* (p. 5) *"In particular, the Commission projects a **risk of significant deviation from the required adjustment towards the medium-term budgetary objective for 2019 and 2020. Moreover, Italy is not projected to comply with the debt reduction benchmark in 2019 and 2020.** The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2020 budget will be compliant with the Stability and Growth Pact."* (p. 5)	*"Based on the DBP, **the expenditure benchmark points to a risk of a significant deviation both in 2019 (gap of 0.7 % of GDP) and over 2018 and 2019 taken together (gap of 0.7 % of GDP per year, on average)**. The structural balance pillar points to a risk of some deviation over one year (gap of 0.3 % of GDP) and to a risk of a significant deviation over 2018 and 2019 taken together (gap of 0.3 % per year, on average). **An overall assessment based on the government plans points to a risk of significant deviation from the adjustment path towards the MTO recommended by the Council for 2019**."* (p. 4) *"In case the budgetary impact of the extraordinary maintenance programme for the road network and the prevention plan to secure the national territory against hydrogeological risks were taken into account for 2019, the **expenditure benchmark** would point to the risk of **significant deviation** and the **structural balance** to the risk of **some deviation** from the adjustment path towards the MTO in 2019."* (p. 4) *"**Based on the Commission forecast, the expenditure benchmark points to a risk of a significant deviation both in 2019 (gap of 0.7 % of GDP)** and over 2018 and 2019 taken together (gap of 0.7 % of GDP per year, on average). The **structural balance pillar points to a risk of some deviation over one year** (gap of 0.4 % of GDP) and to a risk of a significant deviation over 2018 and 2019 taken together (gap of 0.4 % per year, on average). **An overall assessment based on the Commission forecast points to a risk of significant deviation from the adjustment path towards the medium-term budgetary objective in 2019. That conclusion would not change even if the budgetary impact of the extraordinary maintenance programme for the road network and***	*"Based on the DBP, **the expenditure benchmark points to a risk of a significant deviation both in 2020 (gap of 1.0 % of GDP) and over 2019 and 2020 taken together (gap of 0.8 % of GDP per year, on average)**, as the growth rate of government expenditure, net of discretionary revenue measures and one-offs, will exceed that recommended by the Council. **The structural balance pillar also points to a risk of significant deviation both over one year** (gap of 0.7 % of GDP) **and over 2019 and 2020 taken together** (gap of 0.5 % per year, on average).* (p. 4) *"An overall assessment based on the government plans points to a risk of significant deviation from the adjustment path towards the medium-term budgetary objective in 2020. That conclusion would not change even if the budgetary impact of the extraordinary maintenance programme for the road network and the prevention plan to secure the national territory against hydrogeological risks were taken into account for 2019 and for 2020**. Based on the Commission forecast, the expenditure benchmark points to a risk of a significant deviation both in 2020 (gap of 1.0 % of GDP) and over 2019 and 2020 taken together (gap of 0.9 % of GDP per year, on average). The structural balance pillar points to a risk of significant deviation both over one year (gap of 0.9 % of GDP) and over 2019 and 2020 taken together (gap of 0.6 % per year, on average).**"* (p. 4-5) *"An overall assessment based on the Commission forecast points to **a risk of significant deviation from the adjustment path towards the medium-term budgetary objective recommended in 2020. That conclusion would not change even if the budgetary impact of the extraordinary maintenance programme for the road network and the prevention plan to secure the***

<table>
<tr><td rowspan="3"></td><td></td><td>the prevention plan to secure the national territory against hydrogeological risks were taken into account for 2019." (p. 4)</td><td>national territory against hydrogeological risks were taken into account for 2019 and for 2020." (p. 4-5)</td></tr>
<tr><td colspan="3"><u>Assessment of compliance with the debt rule:</u> "The DBP indicates that the government debt-to-GDP ratio, after increasing from 134.8 % in 2018 to 135.7 % in 2019, will decrease to 135.2 % in 2020, mainly thanks to sustained nominal GDP growth and declining interest spending. Italy is not projected to comply with the debt reduction benchmark in 2019 and 2020. That conclusion is confirmed based on the Commission 2019 autumn forecast, which expects that Italy's debt-to-GDP ratio will increase from 134.8 % in 2018 to 136.2 % in 2019 and 136.8 % in 2020, resulting in gaps from the debt reduction benchmark of 8.8% and 8.6% of GDP respectively." (p. 5)</td></tr>
<tr><td colspan="3"><u>Assessment of complaince with the fiscal structural-part of the 2019 CSR:</u> "The Commission is also of the opinion that Italy has made some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019 in the context of the European Semester and invites the authorities to make further progress." (p. 5)</td></tr>
<tr><td>France</td><td>"Overall, the Commission is of the opinion that the DBP of France is at risk of non-compliance with the provisions of the Stability and Growth Pact." (pp. 4-5)

"In particular, the Commission projects a risk of significant deviation from the required adjustment towards the medium-term budgetary objective for 2019 and 2020. Moreover, France is not projected to make sufficient progress towards compliance with the debt reduction benchmark either in 2019 or in 2020. Therefore, the Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2020 budget will be compliant with the Stability and Growth (...)." (p. 5)</td><td>"According to the data in the DBP, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs shows a gap of 0.7% of GDP with respect to the expenditure benchmark, which points to a significant deviation from that requirement. Likewise, the gap with respect to the required adjustment in the structural balance amounts to 0.6% of GDP, also pointing to a significant deviation." (p. 4)

"The Commission 2019 autumn forecast confirms these conclusions, showing a slightly larger gap of 0.8% of GDP with respect to the expenditure benchmark in 2019." (p. 4)</td><td>"According to the data in the DBP, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs shows a gap of 0.7% of GDP with respect to the expenditure benchmark, thereby pointing to a significant deviation from the requirement. The gap with respect to the required adjustment in the structural balance amounts to 0.6% of GDP, also pointing to a significant deviation. For 2019 and 2020 taken together, the same conclusion holds, unveiling a gap with respect to the expenditure benchmark and to the required adjustment in the structural balance of the same magnitude on average.

"Those conclusions are confirmed by the Commission 2019 autumn forecast, which points to gaps with respect to the expenditure benchmark of 0.8% of GDP for 2020 alone and on average for 2019 and 2020 taken together. The gap with respect to the required adjustment in the structural balance amounts to of 0.5% and 0.6% of GDP for 2020 alone and on average for 2019 and 2020 taken together, respectively." (p. 4)</td></tr>
</table>

<table>
<tr><td></td><td colspan="3">Assessment of compliance with the debt rule: *"The DBP indicates that government debt will decrease marginally from 98.8% in 2019 to 98.7% of GDP in 2020, slightly below the Commission's projection of 98.9% of GDP for both years. The DBP does not include sufficient information to assess compliance with the transitional debt rule based on the forecast and estimates of the government. Based on the Commission 2019 autumn forecast,* ***France is not projected to make sufficient progress towards compliance with the debt reduction benchmark in 2019 and 2020****, with gaps of 1.0% and 1.9% of GDP, respectively."* (p. 4)</td></tr>
<tr><td></td><td colspan="3">Assessment of compliance with the fiscal structural-part of the 2019 CSR: *"The Commission is also of the opinion that* ***France has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019*** *in the context of the European Semester and thus invites the authorities to accelerate progress*." (p. 5)</td></tr>
<tr><td rowspan="2">Portugal</td><td>*"Overall, the Commission is of the opinion that the updated DBP of Portugal* ***is at risk of non-compliance with the provisions of the Stability and Growth Pact****."* (p. 4)

"(...) the Commission projects ***a risk of significant deviation from the required adjustment towards the medium-term budgetary objective in 2019 and 2020****, based on an overall assessment of the two pillars. At the same time, Portugal is projected to make sufficient progress towards compliance with the debt reduction benchmark in 2019 and the debt reduction benchmark is projected to be met in 2020. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2020 budget will be compliant with the Stability and Growth Pact."* (p. 4-5)</td><td>*"Based on the updated DBP, the expenditure benchmark pillar points to* ***a risk of significant deviation (gap of 1.3% of GDP) in 2019, while the structural balance pillar points to a risk of some deviation (gap of 0.5% of GDP****). The fiscal effort based on the expenditure benchmark pillar is negatively impacted by lower underlying potential growth, while the fiscal effort based on the structural balance pillar is positively impacted by revenue windfalls and declining interest expenditure. Based on the updated DBP, an overall assessment confirms a risk of significant deviation from the requirements in 2019, and over 2018 and 2019 taken together. That* ***risk of significant deviation in 2019, and over 2018 and 2019 taken together, is confirmed by an overall assessment based on the Commission ad-hoc forecast****."* (pp. 4-5)</td><td>*"The structural balance in the updated DBP as recalculated by the Commission using the commonly agreed methodology is estimated at a structural deficit of 0.2% of GDP in 2020 and, therefore, considered to be close to the medium-term budgetary objective, taking into account the allowance linked to unusual events for which a temporary deviation is granted. Thus,* ***the assessment based on the updated DBP indicates a risk of some deviation from the recommended structural adjustment in 2020****.* ***At the same time, the expenditure benchmark pillar points to a risk of significant deviation from the requirement in 2020*** *(gap of 0.7% of GDP)."* (p. 4)

*"****Based on the Commission ad-hoc forecast****, the structural balance will be slightly more distant from the medium-term budgetary objective in 2020, compared with the structural balance in the updated DBP as recalculated by the Commission, and can therefore not be considered close to it.* ***The expenditure benchmark pillar points to a risk of significant deviation (gap of 0.8% of GDP) in 2020, while the structural balance pillar points to a risk of some deviation (gap of 0.2% of GDP)****."* (p.4)</td></tr>
<tr><td colspan="3">*Assessment of compliance with the debt rule*: *"The updated DBP indicates that the public debt-to-GDP ratio will decline from 118.9% in 2019, to 116.2% in 2020, below the projected 116.7% in the Commission ad-hoc forecast. Based on the Commission ad-hoc forecast,* ***Portugal is projected to make sufficient progress towards compliance with the debt reduction benchmark in 2019 and the debt reduction benchmark is projected to be met in 2020****."* (p. 4)</td></tr>
</table>

	Assessment of compliance with the fiscal structural-part of the 2019 CSR: "The Commission is also of the opinion that ***Portugal has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019*** *in the context of the European Semester and thus invites the authorities to accelerate progress."* (p. 5)		
Slovenia	*"Overall, the Commission is of the opinion that the DBP of Slovenia is* ***at risk of non-compliance with the provisions of the SGP****."* (p. 3) *"While the Commission projects* ***a risk of some deviation from the adjustment path towards the medium-term budgetary objective recommended by the Council in 2020, there is a risk of significant deviation taking 2019 and 2020 together.*** *However, the high degree of uncertainty surrounding the output gap estimates could imply that Slovenia may be* ***closer to its medium-term budgetary objective in 2020, pointing to broad compliance****. This will be taken into account if confirmed ex post. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2020 budget will be compliant with the SGP."* (p. 3)	*"According to the DBP,* ***the expenditure benchmark shows a gap of 0.2% of GDP, pointing to some deviation, whereas the (recalculated) structural balance indicates a risk of significant deviation (gap of 0.7% of GDP).*** *As the structural balance is negatively affected by large revenue shortfalls, the expenditure benchmark is considered to give a more accurate picture of the planned fiscal effort. The overall assessment based on the DBP thus points to a risk of some deviation from the recommended adjustment in 2019. However,* ***for 2018 and 2019 taken together, the expenditure benchmark indicates a risk of significant deviation from the recommended adjustment (average gap of 0.6% of GDP).*** *"* (p. 3) *"Based on the Commission 2019 autumn forecast, both pillars indicate* ***a risk of significant deviation in 2019 (gaps of 1.3% and 0.9% of GDP based on the expenditure benchmark and the structural balance, respectively)****. The overall assessment confirms this conclusion."* (p. 2-3)	*"In 2020, for Slovenia to comply with the requirements of the preventive arm, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should not exceed 4.0%, corresponding to an annual structural adjustment of 0.5% of GDP. "* (p. 3) *"****As in 2019, the expenditure benchmark is considered to give a more accurate picture of the fiscal effort. Based on the DBP, the expenditure benchmark points to compliance both in 2020 and over 2019 and 2020 taken together****. According to the Commission 2019 autumn forecast, both the expenditure benchmark and the structural balance* ***point to a risk of some deviation in 2020 (gaps of 0.2% and 0.5% of GDP, respectively) and a risk of significant deviation over 2019 and 2020 taken together*** *(average gaps of 0.8% and 0.7% of GDP, respectively)."* (p. 3)
	Assessment of compliance with the debt rule: "The DBP indicates that government debt-to-GDP ratio will decline from 70.4% in 2018 to 66.3% in 2019 and 62.1% in 2020, slightly below the Commission's projections. The DBP does not include sufficient information to assess compliance with the debt reduction benchmark. Based on the Commission 2019 autumn forecast, ***the debt reduction benchmark is projected to be met in both 2019 and 2020****."*		
	Assessment of complaince with the fiscal structural-part of the 2019 CSR: "The Commission is also of the opinion that ***Slovenia has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019*** *in the context of the European Semester and thus invites the authorities to accelerate progress."* (p. 3)		

Slovakia	*"Overall, the Commission is of the opinion that the DBP of Slovakia is* ***at risk of non-compliance with the provisions of the Stability and Growth Pact****."* (p. 3) *"Moreover, the additional measures announced on 6 November 2019 reduced the deviation from the recommended adjustment path towards the medium term budgetary objective as a result of which it is no longer significant in 2020. However, mainly in view of the slippage in 2019,* ***there is still a risk of significant deviation for 2019 and 2020 together from the adjustment path towards the mediumterm budgetary objective recommended by the Council****. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2020 budget will be compliant with the Stability and Growth Pact."* (p. 3)	*"According to the information provided in the DBP,* ***Slovakia is compliant with the requirements in 2019****.* ***At the same time, both the expenditure benchmark and the structural balance point to a risk of a significant deviation over 2018 and 2019 taken together****, due to fiscal slippages in 2018 that are not expected to be adequately compensated for in 2019."* (p. 3) *"An overall assessment based on the Commission 2019 autumn forecast finds that the expenditure benchmark captures more accurately the fiscal effort of Slovakia and, therefore points to a risk of significant deviation in 2019."* (p. 3)	*"Based on the information in the DBP,* ***both expenditure benchmark and structural balance pillars point to compliance in 2020 and in 2019 and 2020 taken together.*** *By contrast, based on the Commission 2019 autumn forecast, the expenditure benchmark, which more accurately captures the fiscal effort of Slovakia,* ***points to a risk of significant deviation both in 2020 and when 2019 and 2020 are taken together. The overall assessment thus points to a risk of significant deviation from the path towards the medium-term budgetary objective for both 2020 and 2019 and 2020 taken together****."* (p. 3) .
	<u>*Assessment of compliance with the debt rule:*</u> *"****The public debt ratio is well below 60% of GDP and further declining****, while the headline budget balance provides a sizeable margin from the 3% of GDP Treaty reference value."* (p. 3)		
	<u>*Assessment of compliance with the fiscal structural-part of the 2019 CSR:*</u> *"The Commission is also of the opinion that* ***Slovakia has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019*** *in the context of the European Semester and thus invites the authorities to accelerate progress."* (p. 4)		
Finland	*"Overall, the Commission is of the opinion that the DBP of Finland is* ***at risk of non-compliance with the provisions of the Stability and Growth Pact****."* (p. 3) *"The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the*	*"The assessment of compliance for 2019 based on the DBP* ***points to a risk of some deviation, as both indicators point in the same direction (gap of 0.2% of GDP and 0.4% of GDP based on the structural balance and the expenditure benchmark, respectively)****. The Commission 2019 autumn forecast confirms the conclusion of a risk of some deviation in 2019."* (p. 3)	***"The assessment of compliance for 2020 based on the DBP points to a risk of significant deviation, as both indicators point in the same direction (gap of 0.6% of GDP and 0.8% of GDP based on the structural balance and the expenditure benchmark, respectively). The overall assessment also points to a risk of a significant deviation in 2019-2020 taken together*** *(average gap of 0.4% of GDP and 0.6% of GDP based on the structural balance and the expenditure benchmark, respectively). The Commission 2019 autumn forecast confirms the*

	2020 budget will be compliant with the Stability and Growth Pact." (p. 3)		*conclusion of a risk of significant deviation from the adjustment path towards the medium-term budgetary objective in 2020 and in 2019-2020 taken together."* (p. 3)
	<u>Assessment of compliance with the debt rule:</u> "Finland reduced its gross public debt from the peak of 63.0% of GDP in 2016 to 59.0% of GDP in 2018. The DBP and the Commission 2019 autumn forecast consistently ***indicate that government debt will remain below the reference value of the Treaty of 60% of GDP by 2020****."* (p. 3)		
	<u>Assessment of complaince with the fiscal structural-part of the 2019 CSR:</u> "The Commission is also of the opinion that ***Finland has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019*** *in the context of the European Semester and thus invites the authorities to accelerate progress."* (p. 3)		

Source: COM opinions on 2020 DBPs.

Annex 2: Fiscal sustainability indicators

	BE	DE	EE	IE	ES	FR	IT	CY	LV	LT	LU	MT	NL	AT	PT	SI	SK	FI
Overall SHORT-TERM risk category[1]	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW
Overall MEDIUM-TERM risk category[2]	HIGH	LOW	LOW	LOW	HIGH	HIGH	HIGH	LOW	LOW	LOW	LOW	LOW	LOW	LOW	HIGH	LOW	LOW	ME-DIUM

Source: annexes to the communication from the Commission on the 2020 Draft Budgetary Plans, November 2019.

Notes: (1) The short-term risk category indicator highlights risks of fiscal stress in the upcoming year and is based on two sub-indicators, the fiscal and the financial-competitiveness index; (2) the medium-term risk category indicator highlights risks of medium-term debt sustainability and is based on the joint measure of debt projections over 10-years and cumulated adjustments in the structural primary balance over 5 years needed to reach the target of a 60% debt-to-GDP ratio by 2030; (3) The COM provides the following reason why Greece has not been included in this table: "*Given the unique composition of the Greek public debt and the debt relief measures adopted by the Eurogroup in June 2018, the analysis of Greek public debt and fiscal sustainability is based on country-specific assumptions (see Fiscal Sustainability Report 2018, Box 3.3 for more details). For this reason, results are not shown in this horizontal assessment table based on common assumptions and methodologies*."

Annex 3: Euro area - Key macroeconomic indicators

	2016	2017	2018	2019 f	2020 f	2021 f
GDP growth – *% change on previous year*						
EA	1.9	2.5	1.9	1.1	1.2	1.2
EU	2.0	2.6	2.0	1.3	1.4	1.4
GDP per capita – *Purchasing power parities, Euro*						
EA	31,130	31,870	32,780	n.a.	n.a.	n.a.
EU	29,310	30,070	30,970	n.a.	n.a.	n.a.
General government budget balance – *% of GDP*						
EA	-1.4	-0.9	-0.5	-0.8	-0.9	-1.0
EU	-1.7	-1.0	-0.7	-0.9	-1.1	-1.2
General government structural budget balance[2] – *% of potential GDP*						
EA	-1.0	-1.0	-0.8	-0.9	-1.1	-1.2
EU	-1.3	-1.2	-1.0	-1.1	-1.3	-1.4
General government gross debt[1,2] – *% of GDP*						
EA	92.2	89.8	87.9	86.4	85.1	84.1
EU	85.3	83.6	81.9	80.6	79.4	78.4
Interests paid on general government debt – *% of GDP*						
EA	2.1	1.9	1.8	1.7	1.5	1.4
EU	2.1	2.0	1.8	1.7	1.6	1.5
Inflation (HICP) – *% change on previous year*						
EA	0.2	1.5	1.8	1.2	1.2	1.3
EU	0.2	1.7	1.9	1.5	1.5	1.7
Unemployment – *% of labour force*						
EA	10.0	9.1	8.2	7.6	7.4	7.3
EU	8.6	7.6	6.8	6.3	6.2	6.2
Youth unemployment – *% of labour force (15 – 24 years)*						
EA	20.9	18.8	16.9	n.a.	n.a.	n.a.
EU	18.7	16.9	15.2	n.a.	n.a.	n.a.
Current-account balance[3,4] – *% of GDP*						
EA	3.2	3.1	3.1	2.7	2.6	2.5
EU	1.4	1.3	1.3	1.1	1.0	1.0
Exports – *% change on previous year*						
EA	2.9	5.5	3.3	2.4	2.1	2.3
EU	3.3	5.7	3.3	2.5	2.3	2.4
Imports – *% change on previous year*						
EA	4.1	5.0	2.7	3.2	2.6	2.7
EU	4.4	5.1	3.1	3.3	2.8	2.8
Total investments – *% change on previous year*						
EA	4.0	3.5	2.3	4.3	2.0	1.9
EU	3.3	3.4	2.5	3.8	1.8	1.7
Total investments – *% of GDP*						
EA	20.3	20.6	20.8	n.a.	n.a.	n.a.
EU	19.9	20.2	20.4	n.a.	n.a.	n.a.
General government investments – *% of GDP*						
EA	2.6	2.6	2.7	2.8	2.8	2.9
EU	2.7	2.8	2.9	3.0	3.0	3.1
Total final consumption expenditure – *% change on previous year*						
EA	2.0	1.6	1.3	n.a.	n.a.	n.a.
EU	2.3	1.8	1.5	n.a.	n.a.	n.a.
Households final consumption expenditure – *% change on previous year*						
EA	2.0	1.7	1.4	n.a	n.a.	n.a.
EU	2.5	2.1	1.7	n.a	n.a	n.a.
Income Inequality (Gini coefficient) – *Scale 0-100: 0 = total income equality; 100 = total income inequality*						
EA	30.7	30.4	30.6	n.a.	n.a.	n.a.
EU	30.8	30.6	30.9	n.a.	n.a.	n.a.
Unit labour cost – nominal – *% change on previous year*						
EA	0.7	0.7	1.8	2.0	1.4	1.4
EU	-1.2	0.1	1.7	2.5	1.8	1.7

Source: Eurostat, data extraction on 21/01/2020 unless otherwise specified; (1) general government gross debt, non-consolidated for intergovernmental loans; (2) data from AMECO; (3) current account balance, Eurostat/ECB adjusted for intra-EU/EA imports; (4) and (f) data from European Economic Forecast - Autumn 2019.