An Overview of the 2017 Stability and Convergence Programmes and an Assessment of the Euro Area Fiscal Stance for 2018

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ACKNOWLEDGEMENTS

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EXECUTIVE SUMMARY

This paper provides an overview of the 2017 Stability and Convergence Programmes (SCPs). It takes a glance at budgetary developments in 2016 and sets out the fiscal plans over 2017-2020, both at the country level and the euro area and EU as a whole. It also presents an analysis of the recent and prospective fiscal stance in the euro area.

Headline deficits continued to decrease in 2016, more so than expected last year on aggregate terms, reaching 1.6% of GDP in the euro area (1.7% in the EU). This was mostly thanks to GDP growth exceeding Member States' prospects. At the same time, the structural balance remained broadly unchanged in the euro area, while improving somewhat in the EU. The fiscal stance of the euro area was broadly neutral on average between 2014 and 2016, following considerable retrenchment over the period 2011-2013.

In 2017 and beyond, SCPs plan further improvements in headline balances, approaching zero in 2020. In structural terms, the fiscal outlook is broadly unchanged in 2017, but consolidation is planned to resume mildly in 2018 and beyond. In 2016, 13 Member States are at or above their MTOs. By the end of the programme horizon, 15 Member States plan to be at or above their MTO and another three expect to be in its vicinity.

The euro area fiscal stance is expected to be slightly expansionary in 2017 and 2018 according to the discretionary fiscal effort derived from the Commission 2017 spring forecast (under the no-policy-change assumption for 2018). On the one hand, the economic recovery is steady with continuously closing output gap. On the other hand, the policy-supported economic recovery still remains moderate, with risks to the outlook tilted to the downside. Despite recent improvements in unemployment, significant slack remains in the labour market. Over the next two years, wage growth is expected to remain constrained and the investment gap is expected to persist, while core inflation is forecast to stay subdued. Together with a large expected current account surplus in the euro area, this suggests that there is still scope for higher growth without triggering inflationary pressures. Therefore, the analysis points to a remaining trade-off between sustainability and stabilisation needs for the euro area as a whole for 2018. A convincing strategy for addressing the remaining uncertainties would therefore be to pursue a broadly neutral fiscal stance in 2018 for the euro area as a whole, with proper differentiation across Member States, catering for sustainability needs. The aggregation of the Member States plans presented in the stability programmes actually points to a broadly neutral fiscal stance. In addition, an analysis shows that cross-country spillover effects are non-negligible. This finding strengthens the case for an appropriately differentiated fiscal stance, i.e., one in which Member States with fiscal space make use of it and Member States who need to consolidate do so at a lesser cost.

The comparison of the 2017 SCPs with the Commission 2017 spring forecast suggests that the projected budgetary figures are plausible for 2017. For 2018, however, Member States are somewhat more optimistic, which appears mainly linked to a different quantification of well-specified fiscal measures. The assumptions on revenue elasticities which underlie Member States' projections for the last two years of the programmes appear realistic in the aggregate but rather optimistic in some cases.

Public debt has peaked in 2014 at around 94% of GDP in euro area (88% in the EU) and is projected to fall steadily over the programme horizon to reach around 83% of GDP in the euro area (78% in the EU) in 2020. The main drivers for the debt reduction going forward are primary surpluses supported by a favourable snowball effect. On the medium-term, sustainability risks (up to 2031) remain elevated in a number of Member States. Medium-term debt projections show that if the fiscal plans in the SCPs were fully implemented, additional fiscal consolidation measures totalling around ½ percentage point of GDP would be needed over the next five years to bring the debt-to-GDP ratio to 60% by 2031. However, in a number of Member States the needed consolidation measures are more significant.

0. INTRODUCTION

This paper provides an overview of the 2017 Stability and Convergence Programmes (SCPs) submitted by EU Member States.([1]) The paper aims at offering a cross-country aggregated view of fiscal policy plans in the European Union and the euro area as a whole.([2]) It also includes an assessment of the fiscal stance and policy mix in the euro area, which is broadly in line with the analysis of the European Fiscal Board who published its first report assessing the euro area fiscal stance on 20 June 2017.([3])

In its 2017 Annual Growth Survey the Commission highlighted that a number of Member States continue to face fiscal sustainability challenges, while others could use available fiscal space to support a positive fiscal stance. It further argued that, given the need to support the on-going recovery, more efforts are needed to bring about a positive fiscal stance for the euro area as a whole, also in support of the monetary policy of the European Central Bank. At the same time, the aggregate picture hides large differences across Member States. Challenges in terms of fiscal sustainability remain in a number of countries where public debt is high, which may be a source of vulnerability to adverse shocks. On 21 March 2017, the Council recommended *that in the period 2017-2018, euro area Member States take action within the Eurogroup, individually and collectively, to aim for an appropriate balance in fiscal policies between the need to ensure sustainability and the need to support investment to strengthen the recovery, thereby contributing to an appropriate aggregate fiscal stance and a more balanced policy mix*. This horizontal recommendation feeds into the country-specific recommendations (CSRs). In the context of the European Semester, the Council recommendations, both horizontal and country-specific, are expected to guide the national budgets for 2018. For this reason, plans for 2018 are given primary attention in the present paper.

The paper consists of four sections. Section 1 examines the implementation of SCPs in 2016. Section 2 presents the budgetary plans set out by Member States in their SCPs over the period 2017 to 2020. It also analyses and assesses the overall fiscal stance in the euro area. Section 3 contains an analysis of the risks present in the SCPs plans. It focuses on risks to projections of macroeconomic variables and related revenue targets, as well as interest rate risks. Section 4 looks at the longer-term implications of the plans for fiscal sustainability, by taking into account the projected changes in age-related expenditure. Finally, an annex provides tables with data from both the SCPs and the Commission 2017 spring forecast.

([1]) The analysis is built around data reported by Member States in their 2017 Stability and Convergence Programmes, unless otherwise specified. As Greece is under a macroeconomic adjustment programme it did not submit a Stability Programme and is not part of this analysis. The data for the UK correspond to fiscal years and, when relevant, other (Commission) data for the UK are adjusted to be comparable. The NL have submitted a no-policy-change Stability Programme.

([2]) The overview of the 2016 vintage of the SCPs is available at: https://ec.europa.eu/info/publications/economy-finance/2016-stability-and-convergence-programmes-overview-and-implications-euro-area-fiscal-stance_en

([3]) The paper builds on an earlier note circulated to the members of the Economic and Financial Committee (EFC) and their delegates in May 2017. During the process of completing this paper and in line with of the Memorandum of Understanding signed by the two parties, the European Fiscal Board (EFB) engaged with DG ECFIN in relation to its forthcoming independent assessment of the prospective fiscal stance appropriate for the euro area. The key findings of the EFB report are broadly in line with the Commission staff assessment. Most importantly, both the Commission staff and the EFB consider a broadly neutral fiscal stance for the euro area as a whole in 2018 as appropriate. In addition, there is a broad agreement on the assessment of the macroeconomic situation and cyclical conditions. In contrast to the Commission staff assessment, the EFB distinguishes in one scenario between a more or less restrictive reading of the SGP rules.

1. 2016 AT A GLANCE: BUDGETARY DEVELOPMENTS

Overall budgetary developments in 2016

Public deficits decreased further over 2016 as a result of improved economic conditions, whereas the structural balance remained stable in the euro area and improved somewhat in the EU. The aggregate headline deficit fell from 2.0% of GDP in 2015 to 1.6% of GDP in 2016 in the euro area, and from 2.3% to 1.7% of GDP in the EU. As shown in Graph 1.1, the improvement of the business cycle had a deficit-decreasing impact on headline balances. The aggregate structural deficit of the euro area remained stable at just over 1% of GDP, while it decreased by 0.3% of GDP in the EU reaching 1.4% of GDP. Another well accepted measure of fiscal effort, the discretionary fiscal effort (DFE), which is conceptually close to the expenditure benchmark, suggests somewhat more expansionary fiscal positions, being stable for the EU and deteriorating by around 0.4% of GDP in the euro area.[4] The overall fiscal stance in the euro area is discussed in more detail at the end of this section.

Graph 1.1:   Drivers for the change in the headline balance in EU Member States in 2016 (pps. of GDP)
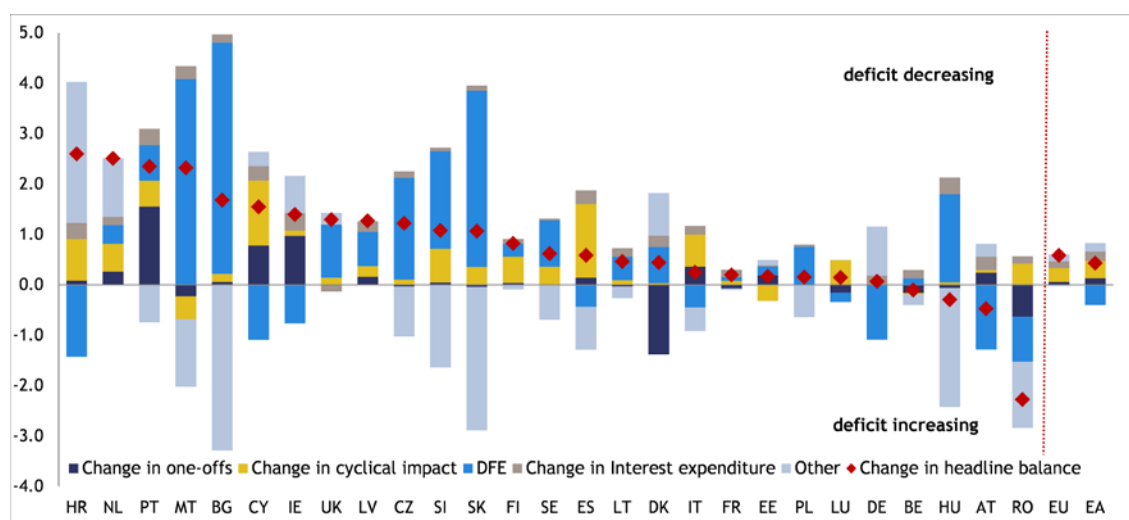
A positive (negative) value means contributing to an improvement (deterioration) of the headline balance. The other category is defined as a residual and includes revenue windfalls(+) or shortfalls (-) compared to standard elasticities, changes in EU funds-related revenues and a technical term due to different assessments of cyclical unemployment and potential growth between the Discretionary Fiscal Effort (DFE) and the cyclical impact.
Source: European Commission 2017 spring forecast.

Developments in headline balances and structural adjustment differ across Member States. Changes in headline balances range from an improvement of around 2.6 pps. of GDP in HR to a deterioration of around 2.3 pps. of GDP in RO. Concerning the fiscal effort, BG, CZ, MT, HU, SI, SK and UK stand out with a DFE of more than 1 pp. of GDP. In four Member States the DFE had a very substantive deficit increasing impact, i.e. by 1.0% of GDP or more, notably in DE, CY, HR and AT. The country-specific readings of the change in the structural balance can differ from the DFE, as reported in Annex Table A1.5, also due to a different treatment of EU funds related spending[5]. In 2016, EU funds related spending dropped in many Member States as the old programming period drew to an end in 2015.

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[4] See Box 1.1 and 2.2. In a nutshell, the DFE describes the increase in primary expenditure net of cyclical components on the one hand and of discretionary revenue measures on the other hand, relative to economic potential.

[5] In the headline balance and the structural balance, EU funds related expenditure is to a big part cancelled out by the corresponding revenue. In the DFE, EU funds related expenditure is not netted out, contrary to the change in the structural balance (where it is offset by corresponding revenue) and the expenditure benchmark (where it is excluded from the expenditure aggregate). The DFE thus may appear better suited to capture the fiscal impulse, while the structural balance and the expenditure benchmark may appear better suited for budgetary surveillance. In Graph 1.1, fluctuations in EU funds related revenue are mostly reflected in the "other" term.

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The DFE may thus overestimate the adjustment in 2016 for Member States with important EU funds related spending.

The improvement in the headline balance can be attributed to a decline in the primary expenditure ratio and a milder fall in interest payments. Primary expenditure-to-GDP fell by 0.5 pps., both in the euro area and the EU, complemented by a decline in interest expenditure, falling by 0.2 pps. in the euro area and by 0.1 pps. in the EU. Conversely, revenue-to-GDP decreased by 0.2 pps. in the euro area, but held steady in the EU, in particular thanks to a strong increase in the UK. The drop in the primary expenditure ratio in the euro area can be attributed to a strong increase in nominal GDP, impacting the denominator. The structural primary expenditure ratio on the other hand, which uses potential GDP in the denominator, remained stable in the euro area and fell by 0.1 pps. in the EU. To sum up, the drop in the interest expenditure in the euro area was entirely offset by a decline in the (structural) revenue ratio while primary expenditure evolved in line with potential GDP, resulting in a broadly stable structural balance.

The debt-to-GDP ratio decreased in 2016, standing at around 90% and 84% of GDP in the euro area and the EU respectively. Public debt peaked in 2014 around 94% in the euro area and 88% of GDP in the EU. An overall positive primary balance was the main driver of the 2016 decrease in the debt ratio in both areas, especially in the euro area, see Graph 1.2. For the second year in a row, a favourable dynamic in the growth-interest rate differential (the so-called snowball effect) also contributed to debt reduction, meaning that growth exceeded the implicit cost of debt on the aggregate. Lastly, in the euro area the debt-decreasing effect of the above two factors was further supported by debt-reducing stock-flow adjustments. Increases in the debt-to-GDP ratio in some countries could be mostly attributed to sizeable stock-flow adjustments.

Graph 1.2:   **Contributions to the change in the debt-to-GDP ratio in 2016 (pps. of GDP)**
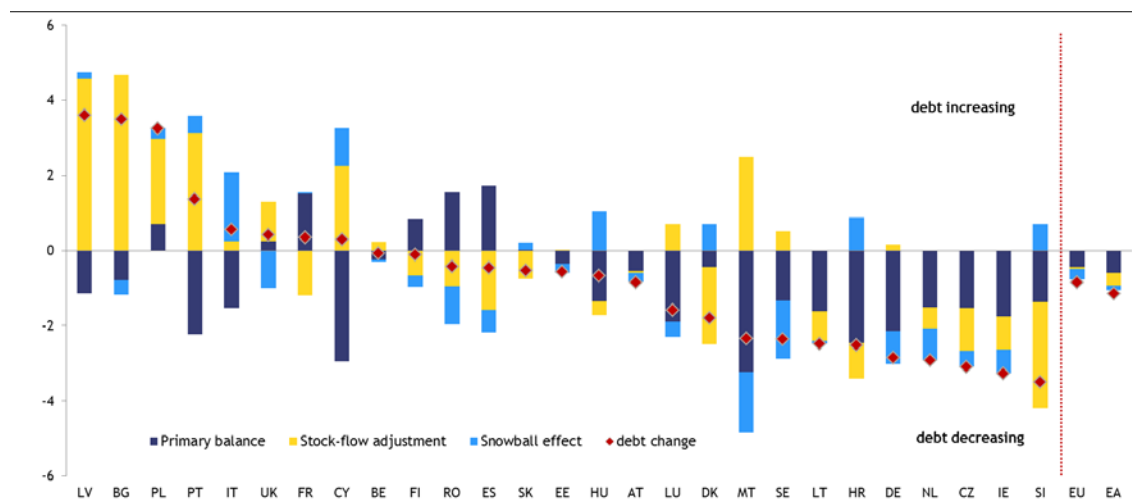
The graph disaggregates the changes to Member States' debt-to-GDP ratios in 2016 between the contributions of the primary balance, stock-flow adjustments and the snowball effect, the latter of which refers to the interest rate-growth rate differential. Negative (positive) values indicate that the concerned factor contributed to a decrease (increase) in the debt-to-GDP ratio, i.e. primary balances are shown with an opposite sign.
Source: European Commission 2017 spring forecast.

Comparison of the 2016 outturn with the 2016 Stability and Convergence Programmes

Compared to the 2016 SCPs, headline balances turned out better than expected both in the euro area and the EU (by 0.3 pps. of GDP and 0.4 pps. of GDP respectively). The large majority of Member States registered better-than-planned outcomes, in some cases by even more than 1 pp. Only ES

has a significantly more negative outcome, with a deviation from plans by almost 1 pp, as shown in Graph 1.3.([6]) On the aggregate, the improvement in debt ratios came out mostly as planned.

While last year's SCPs planned an increase in the aggregate EU and euro area structural deficit in 2016, the outturn data show a small reduction in the EU structural deficit and a broadly stable euro area structural deficit. Big shortfalls compared to structural balance adjustment targets in the 2016 SCPs occurred only in ES and BE. All other Member States implemented their plans or managed to outperform their plans in 2016, with overachievements by 0.5% of GDP or more in NL([7]), MT, HR, DK, SE, CZ, BG, EE, PL, CY, LV, DE, and LT. Most of these countries benefitted from sizeable revenue windfalls, both compared to standard elasticities as well as compared to their plans.

Graph 1.3:   **Headline balance in EU Member States in 2016, outturn vs 2016 SCPs (% of GDP)**
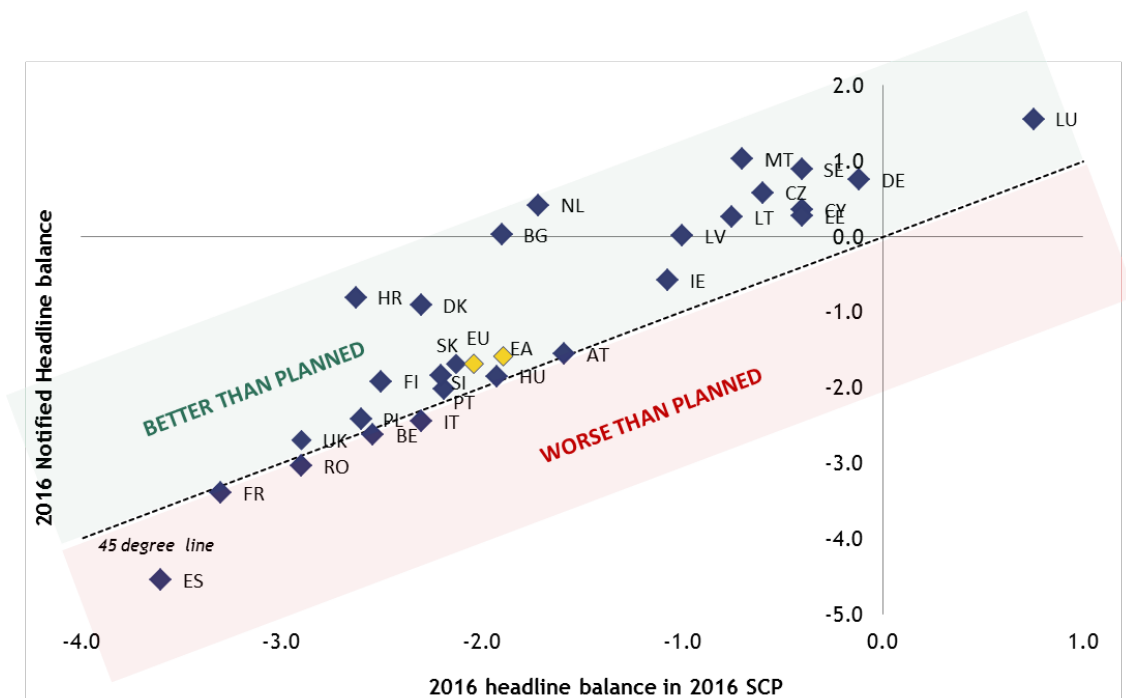
The graph plots the notified 2016 headline budget balances (vertical axis) against the planned headline budget balance (horizontal axis). Member States above (below) the 45 degree line are those where the 2016 outcome was better (worse) than planned.
Source: European Commission 2017 spring forecast, 2016 Stability and Convergence Programmes.

For the euro area and the EU as a whole, the cyclical improvement of the general government balance came out broadly as expected. As shown in Table 1.1, aggregate real GDP growth turned out as expected, while the GDP deflator was somewhat lower than expected, especially for the euro area. As a result of a downward revision of potential growth estimates since last year's SCPs, aggregate output gaps are now estimated to be slightly less negative than anticipated in the 2016 SCPs. At member state level, however, divergent evolutions can be observed. The change in the cyclical budgetary impact turned out more negative than expected in MT, SE, FR, PL, DK and AT, while it was substantially better in LU, SK, ES, SI, HR, BG, LV, RO, FI, CY, DE, NL, LT and HU.

([6])   It should be noted that ES received a new EDP recommendation in August 2016.
([7])   ES and NL submitted a fiscal trajectory at unchanged policy in their 2016 SCP.

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Table 1.1:   **Economic conditions in the EU and the euro area in 2016**

		2016 SCPs planned	COM 2017 spring forecast
EU	Real GDP growth	2.0	1.9
Euro area		1.8	1.8
EU	Nominal GDP growth	3.2	3.0
Euro area		3.1	2.7
EU	Inflation (GDP deflator)	1.2	1.1
Euro area		1.3	0.9
EU	Output gap	-0.8	-0.6
Euro area		-1.1	-0.9
EU	Change in output gap	0.5	0.5
Euro area		0.5	0.6

Source: European Commission 2017 spring forecast, 2016 Stability and Convergence Programmes.

Compared to the 2016 SCPs, the expenditure ratios turned out broadly as planned in the euro area, whereas the revenue ratio decreased far less than expected (see Table 1.2). Primary expenditures declined slightly more than planned despite somewhat lower-than-expected nominal GDP growth. Interest expenditure fell by 0.2% of GDP in the euro area and by 0.1% of GDP in the EU, as expected in last year's SCPs. While the revenue ratio was anticipated to decrease by 0.5% of GDP in the euro area, it fell by only 0.2% of GDP. These higher-than-expected revenues stem from larger observed revenue elasticities: whereas plans counted on aggregate on 0.2% of GDP of revenue shortfalls compared to standard elasticities, the outturn data show revenue windfalls amounting to 0.1% of GDP. The aggregate impact of new revenue measures on the other hand seems to have been in line with 2016 plans.

Table 1.2:   **Composition of fiscal developments in EU and euro area (% of GDP)**

		2015 outturn	2016 outturn	2016 SCPs planned change	2016 outturn change
EU	Revenues	44.8	44.7	-0.3	0.0
Euro area		46.3	46.1	-0.5	-0.2
EU	Primary expenditure	44.8	44.3	-0.4	-0.5
Euro area		46.0	45.5	-0.4	-0.5
EU	Interest expenditure	2.3	2.1	-0.1	-0.1
Euro area		2.4	2.2	-0.2	-0.2

The table compares the changes in the revenue-, primary expenditure- and interest-to-GDP ratios in 2016, as planned in last year's SCPs and as outturn.
Source: European Commission 2017 spring forecast, 2016 Stability and Convergence Programmes.

Box 1.1: *The fiscal stance: clarifications*

The fiscal stance is a notion with no universally accepted definition but a broadly shared understanding within the economic community. ([1]) Usually, the fiscal stance refers to the orientation of fiscal policy, which can be qualified as expansionary, restrictive or neutral. A neutral fiscal policy, in the perspective of this note, is one where government discretionary decisions, essentially the growth of spending and the new tax measures, neither support nor drag on the private economy compared with a steady state path. This would for example be the case when government expenditures expand at a pace in line with medium-term growth and no tax measures in either direction are taken, or more generally, when the gap between expenditure growth and potential growth equates the amounts of new tax measures.

A commonly used indicator for the fiscal effort is the change in the structural balance. ([2]) To have an even better understanding of the current fiscal effort, interest payments, which are predetermined by the size of the previous deficit, can also be removed from the structural balance resulting in the structural primary balance. A key advantage of the structural balance is that it is widely-known and routinely calculated. In fact, the change in the structural balance has played a central role in the European fiscal framework since the 2005 reform of the Stability and Growth Pact. However, the structural balance has also been increasingly challenged since it can be distorted by non-policy effects. First, its endogenous relation with GDP may interfere with the estimations of governments' fiscal actions. Second, estimates of the structural balance have been revised repeatedly in recent years, reflecting the difficulty of real time measurement of the output gap.

The discretionary fiscal effort (DFE) provides a convincing alternative indicator for the fiscal effort. It combines a top-down approach on the expenditure side with a bottom-up or narrative approach on the revenue side. In a nutshell, the DFE consists of the increase in primary expenditure net of cyclical components relative to economic potential on the one hand, and of discretionary revenue measures on the other hand. ([3]) A key advantage of the DFE is that it is not exposed to short-term changes in revenue or spending elasticities, therefore largely avoiding the endogeneity problem which biases the structural balance. At the same time, it relies on a smoother and more stable notion of potential growth than the structural balance. Nevertheless, also the DFE can be distorted by non-policy effects. A particular challenge is to quantify and classify a fiscal measure. This requires for instance a clear identification of the no policy change baseline scenario. In addition, it heavily relies on governments' own estimates of the budgetary impact of measures, which are hard to verify.

In general, fiscal policy is considered restrictive when the indicator for the DFE or the change in the structural balance is positive, expansionary when negative, and neutral when close to zero. Combining this information on the orientation of fiscal policy with the evidence on the business-cycle position of the economy, the fiscal stance can in turn be depicted as pro-cyclical (when the fiscal stance is expansionary in an upturn, or restrictive in a downturn), counter-cyclical (when the polar situations hold), or as simply neutral (when the fiscal stance is close to null, irrespective of the precise cyclical position).

Beyond this simple canvas, there are a number of further points to consider when assessing the macroeconomic impact of fiscal policy. First, the above considerations focus solely on the short-run effects of fiscal policy on aggregate demand, leaving aside other important concerns such as medium-term supply side effects. Second, the demand impact of fiscal developments reflects not only the discretionary part of fiscal policy, but also the effects of the automatic stabilisers. The two can as well add up or go in opposite directions. Third, these effects on the economy depend on the values of fiscal multipliers. Multipliers are

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([1]) Previous contributions on the euro area fiscal stance can be found, for instance here: European Commission (2016): The fiscal stance in the euro area. Methodological issues, Report on Public Finances in EMU, December. European Central Bank (2016): The euro area fiscal stance, ECB Bulletin, 4. European Political Strategy Center (2016): Towards a positive euro area fiscal stance, EPSC Strategic Notes, 23 November.

([2]) The structural balance measures the headline budget balance excluding the cyclical component as well as certain one-off and temporary measures.

([3]) See European Commission (2013): Measuring the fiscal effort, Report on Public Finances in EMU, part 3 http://ec.europa.eu/economy_finance/publications/european_economy/2013/pdf/ee-2013-4.pdf

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Box (continued)

uncertain as well as country- and time-dependent, and sensitive to the composition of fiscal changes. Therefore, a given fiscal stance will not always exert the exact same traction on output, given variations in circumstances and composition. Finally, lags should be acknowledged: the effect of fiscal policy in a given year combines the immediate effect of current policy with the incremental lagged effect of prior policies.

Developments of the fiscal stance in 2016

The euro area fiscal stance was on average broadly neutral between 2014 and 2016 following considerable fiscal retrenchment over the period 2011-13 (Graph 2.2a). Based on the change in the structural primary balance and the DFE, the fiscal stance was on average slightly restrictive in 2014, broadly neutral in 2015 before turning slightly expansionary in 2016. In terms of country contributions, ([8]) DE moved to a slightly expansionary stance in 2015 (which coexisted with an increasing current account surplus), with IT also easing in 2016 along with continued loosening in ES between 2014 and 2016. FR pursued moderate consolidation that tends to dwindle in 2016.

The recent move towards an easier stance reflects both a reversal from tax hikes to tax cuts and faster spending (Graph 1.4):

- While there were still a few tax increases in 2014-2015, including on consumption-oriented taxes, policies on the revenue side were loosened in 2016. This involved cuts in labour taxes and social contributions in many countries (including the four largest ones), and more residually lower corporate taxes as well as the removal of a property tax in Italy.

- Public spending is gathering moderate pace in the zone, expanding overall by 2.3% in 2016 in nominal terms, following 2.3% in 2015 and 1.6% in 2014 (Table 1.3). Because these figures are a bit higher than nominal medium-term growth (1.8% in 2016), this translates into a slight expansion from the expenditure side according to the discretionary fiscal effort. However, it can be noted that the "benchmark" nominal growth rates used in this framework reflect the unusually low inflation environment and the weakness of (10-year smoothed) potential growth estimates, which still incorporate lagged effects from the crisis.

([8]) The country-specific conclusions are derived on the basis of the DFE.

Graph 1.4:   **Discretionary fiscal effort (% of GDP)**
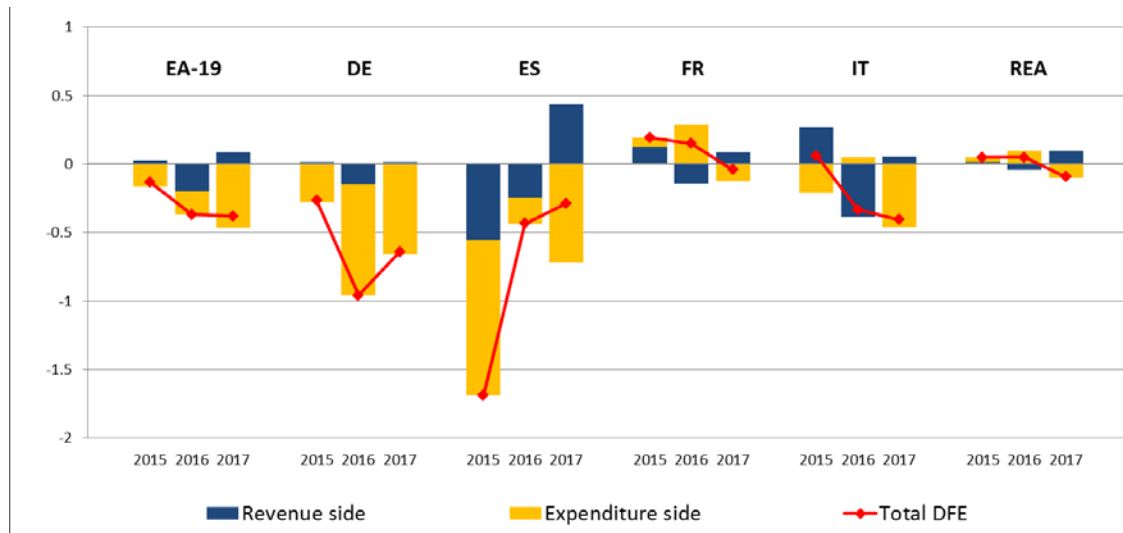
Source: Commission services based on Commission spring 2017 forecast.

Table 1.3:   **Expenditure dynamics and medium-term potential GDP growth (% change)**

	EA			DE			ES			FR			IT		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
Discretionary expenditure growth (nominal)	2.3	2.3	3.3	4.0	5.2	4.5	3.1	1.1	3.4	1.3	1.5	2.2	0.5	0.8	1.8
Medium-term potential growth (nominal) of which:	1.9	1.8	2.0	3.1	2.7	2.7	0.7	0.7	1.2	1.8	2.0	1.9	0.7	0.8	0.7
Medium term potential growth (real)	0.8	0.9	0.8	1.1	1.3	1.3	0.2	0.4	0.2	1.1	1.1	1.0	0.0	0.0	-0.1
GDP deflator	1.1	0.9	1.1	2.0	1.4	1.4	0.5	0.3	1.1	0.6	0.8	0.9	0.7	0.8	0.8

Discretionary expenditure is total government expenditure net of one-offs, interest payments and non-discretionary unemployment expenditure.
Source: European Commission services.

2. BUDGETARY PLANS FOR 2017 AND BEYOND

2.1. DESCRIPTION OF PLANS

Overall budgetary developments

The aggregate headline deficit is planned to fall steadily from 1.6% of GDP in the euro area and 1.7% of GDP in the EU to approach zero in 2020, according to the 2017 SCPs. The time profile of nominal fiscal adjustment is somewhat concentrated in 2018 and 2019, accounting for nearly two-thirds of the total improvement in the headline balance. In 2017, the nominal improvement in the euro area is estimated at 0.3% of GDP and at 0.1% of GDP in the EU.

Six Member States plan a nominal improvement of more than 2% of GDP over the programme horizon, whereas another four envisage a drop in their headline balances of 0.5% of GDP or more (see Graph 2.1). Among the former five (BE, ES, FR, PT and SI), two still exceeded the 3% deficit reference value of the Treaty in 2016. DE, EE, LV, LU, MT and CZ envisage a drop from their current headline surpluses, but remain in surplus or close to balance. On average, the nominal adjustment is around 1½ % of GDP.

Graph 2.1:   Time profile of fiscal developments: planned change in headline budget balance (pp of GDP, cumulative) in EU Member States for 2017-2020, as presented in 2017 SCPs
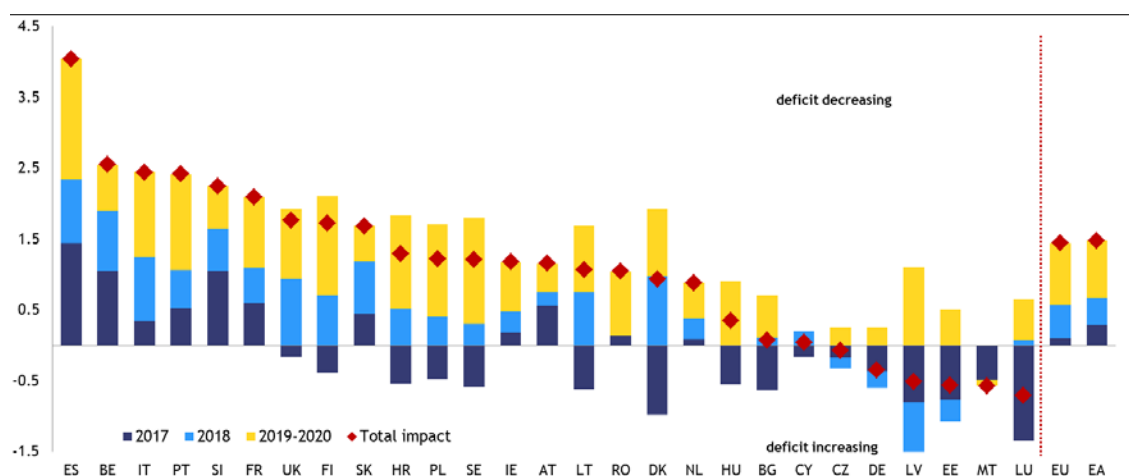
The graph shows the change in the headline balance over the period 2017-2020 according to 2017 SCPs. Countries are ordered from largest to smallest cumulative change in the headline budget balance in the period 2017-2020.
Source: 2017 Stability and Convergence Programmes.

On aggregate, Member States plan to keep the (recalculated)([9]) structural balance broadly steady in 2017, followed by a fiscal contraction in 2018-2020. In 2017, the structural balance is expected to worsen slightly by 0.1% in the EU and to improve slightly by 0.1% in the euro area. Similar to the situation in 2016, the DFE points towards somewhat more expansionary fiscal positions, by around 0.3% of GDP, see Box 2.2 for a more detailed discussion. As of 2018, the EU aggregate structural deficit would start to go down again, at an annual pace of around ½% of GDP in 2018 and 2019 and at a slower pace in 2020 with a growing number of countries having reached their medium term objective. In the euro area, a relatively constant annual tightening of around ¼% of GDP is expected in 2018, 2019 and 2020 each. As a result of that, the structural deficit is projected to reach 0.4% and 0.3% in the EU and the euro area

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([9]) Structural balances as recalculated by the Commission based on the information contained in the Stability and Convergence Programmes, following the commonly agreed methodology. It is implemented by the Commission services through the CONV simplified routine to recalculate the potential GDP/output gap submitted by the Member States in their plans. For more details, see "The production function methodology for calculating potential growth rates and output gaps", European Economy, Economic Papers No 535, November 2014.

Box 2.1: **Member states' progress towards their MTO**

Most Member States plan to move in the direction of or remain at their MTOs. In 2016, 13 Member States were at or above their MTOs, according to the COM forecast. (^{1}) As shown in Graph 2.1a, six Member States which envisage an overall deterioration of their structural balance in the 2017 SCPs, are currently at or above their MTO and plan to remain adhering to them throughout the programme horizon. Only CY, which was at its MTO in 2016, plans a (recalculated) fiscal path away from its MTO. At the same time, all Member States that currently do not yet reach their MTO, intend to pursue a structural adjustment towards it, with the exception of HU and RO. By the end of the programme horizon, fifteen Member States plan a (recalculated) structural balance at or above their MTO, and another three expect to be in its vicinity. Only RO and ES would maintain a distance to their MTO of more than 1% of GDP through 2020. (^{2})

Graph 2.1a: **Progress towards the MTOs in 2017-2020 (% of potential GDP)**
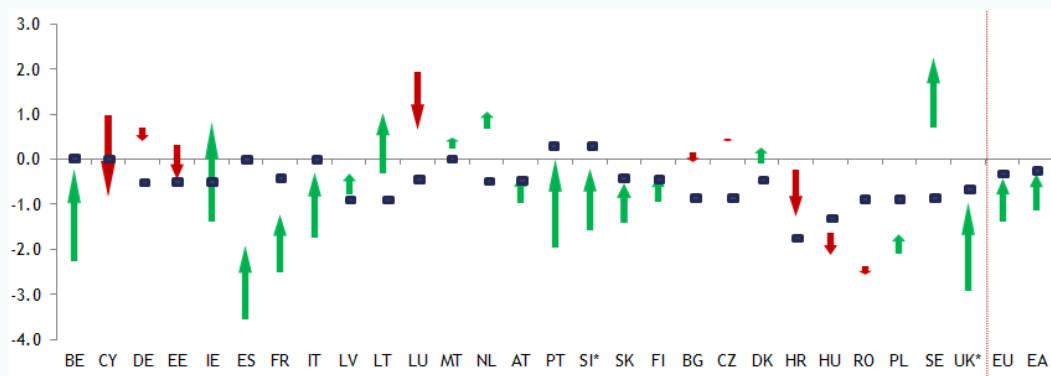
The graph sets out Member States' reported progress towards their respective MTOs throughout the programme horizon. The base of the arrow represents the starting position of the structural balance in 2016 based on the SCPs, while the tip of the arrow represents the projected (recalculated) structural balance for 2020. Thus, the size of the green (red) arrow corresponds to the projected overall improvement (deterioration) in the structural balance throughout the programme horizon. Finally, the dark squares represent each Member State's MTO for 2018 and beyond. For the euro area and the EU, aggregate 'MTO's were calculated as weighted averages of country-specific MTOs.
(*) For SI and the UK, the graph shows minimum MTOs. SI failed to nominate a MTO in line with the requirements of the Pact. The UK has not set an MTO.
Source: 2017 Stability and Convergence Programmes.

(^{1}) According to (recalculated) SCP data, HU was also at/above the MTO applicable in 2016.
(^{2}) This is according to the recalculated levels of the structural balance in 2020. Note that on the basis of the structural balance at face value as presented in the SCPs, 20 Member States plan to be at their MTOs by 2020.

respectively at the end of the programme horizon. A detailed discussion of the fiscal stance in the euro area, based both on the Commission 2017 spring forecast and the SCPs, is provided in subsection 2.2.

A majority of Member States plan a structural adjustment over the full SCP horizon, while some present a limited fiscal expansion. Of the member states with consolidation needs, the fiscal adjustment, as measured by the structural balance, is particularly back-loaded for PT and the UK, which plan an effort above 1% of GDP in 2019 and 2020 together, see Graph 2.2. BG, DE, EE, HR and LU which currently over-perform their MTO plan to use to some extent their available fiscal space while remaining above their MTO in 2020. The planned structural deterioration in CY, HU and RO on the other hand would move these Member States away from their MTO, see Box 2.1.

Graph 2.2:   **The change in the (recalculated) structural balance (% of potential GDP, cumulative) planned in 2017-2020 in the EU Member States according to the 2017 SCPs.**
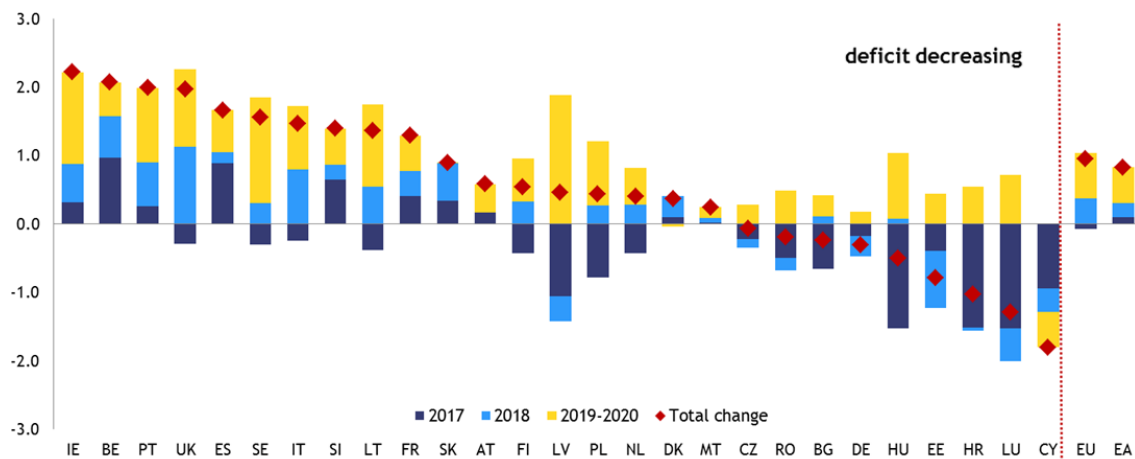
The graph shows the change in the structural balance over the period 2017-2020 according to the 2017 SCPs. Countries are ordered from largest to smallest cumulative change in the structural budget balance in the period 2017-2020.
Source: 2017 Stability and Convergence Programmes.

A reduction in the primary expenditure ratio is the main driver of the planned improvement in the headline balance. Both in the euro area and in the EU, the primary expenditure ratio is expected to drop by around 1.5% of GDP over the programme horizon, as shown in Graph 2.3, with the bulk of the adjustment occurring in the outer years. The fall in the expenditure ratio is driven by a drop in the structural expenditure ratio (-0.9 pps. of GDP in the EU, -0.8 pps. in the euro area), further supported by a closure of the output gap which has a positive impact on the GDP denominator. Public investment is expected to increase in 2017-2018 and to remain broadly stable in subsequent years. A decline in interest expenditure contributes to the fiscal adjustment by around 0.2% of GDP, especially in 2017 and 2018. The drop in expenditure-to-GDP is partly offset by a decline in revenues, with the revenue ratio declining by around 0.25% of GDP in the EU and the euro area by 2020. In the euro area, around half of this drop is explained by discretionary revenue measures reported in the programmes.([10]) As discussed in the 2014 Public Finance Report, expenditure-based fiscal adjustment appears to generate confidence effects and to be less detrimental to growth in the medium term. It is also found to have a lasting effect on deficit and debt reduction.([11])

([10]) This being said, some programmes only report the total amount of discretionary revenue measures without specifying them.
([11]) Report on Public Finances in EMU 2014, European Economy 9, 2014, http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee9_en.pdf

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Box 2.2: **Comparing the evolution of indicators for the euro area fiscal stance**

In the past years the different measures of the fiscal effort convey very similar messages (Graph 2.2a). According to the Commission 2017 spring forecast, the indicators point on average to sizeable fiscal consolidation effects between 2011 and 2013, a broadly neutral fiscal stance between 2014 and 2016 and a slight fiscal expansion between 2017 and 2018. ([1])

Despite the similarities of the big message, sizeable differences between indicators can occur in particular on country level. For instance, Graph 2.2b below plots the fiscal stance in 2017 as measured by the change in the structural balance and the DFE, based on SCPs. To compute the DFE, a split of one-offs in revenue and expenditure items is necessary. ([2]) For the 2017 vintage of the SCPs, MS were for the first time asked to provide this input. Some imprecisions in the reporting can thus not be excluded. Based on the SCPs, the DFE is expected to be slightly more expansionary than the structural balance for the euro area and the EU as a whole in 2017. As shown in Graph 2.2b, there is an important dispersion between the structural balance and the DFE for a number of MS. In light of the DFE figures, the DFE points to a more accommodative fiscal stance than the change in the structural balance for eighteen Member States in 2017. For five countries (ES, LT, SI, DK, RO) the DFE appears more expansionary by 1% of GDP or more. ([3]) On the contrary, the change in the structural balance may be underestimating the actual underlying fiscal effort implemented in eight cases.

Graph 2.2a: **Developments of key indicators for the fiscal effort in the euro area (%of GDP), based on Commission forecast**
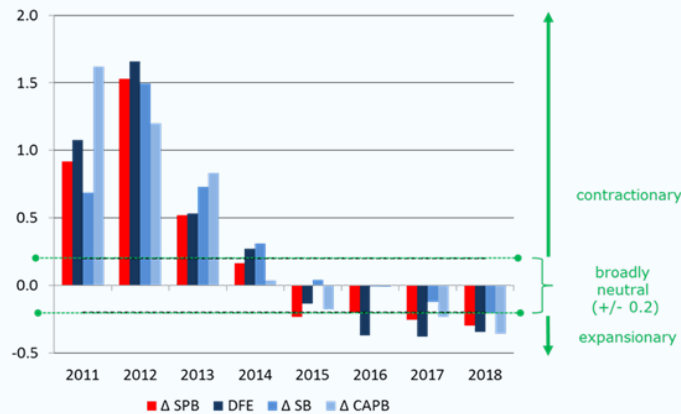
Source: European Commission 2017 spring forecast.

([1]) Typically the range between +/–0.2 has been used to characterise the fiscal effort as "broadly neutral". See European Commission (2016): The 2016 Stability and Convergence Programmes: An Overview and Implications for the Euro Area Fiscal Stance, p. 52.

([2]) See 2013 Public Finances Report for a detailed description of the DFE. http://ec.europa.eu/economy_finance/publications/european_economy/2013/pdf/ee-2013-4.pdf

([3]) The DFE for PL appears also strongly expansionary in 2017, however this is due to the accounting treatment of an exceptional transaction within general government. After eliminating this effect, the DFE deviates by less than 1% of GDP from the change in structural balance.

(Continued on the next page)

Graph 2.2b: **The change in the structural balance vs. the discretionary fiscal effort in 2017, according to SCPs**
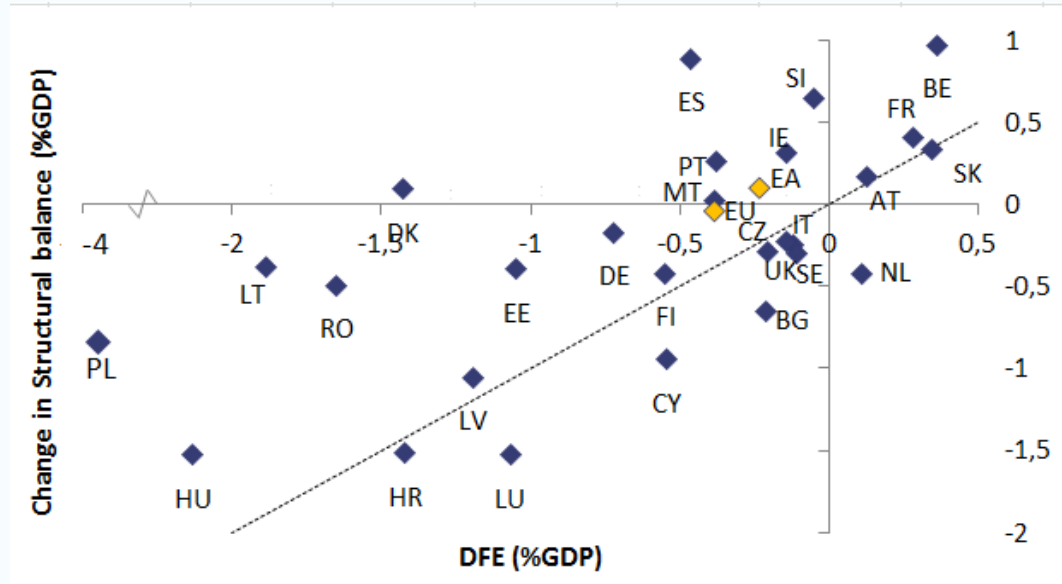
Graph compares the fiscal effort for each Member State, as measured by the structural balance and the discretionary fiscal effort. For Member States above the 45 degree line, the DFE is more expansionary (less contractionary) than the SB. See footnote 3 in this box on the case of PL.
Source: 2017 Stability and Convergence Programmes.

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Graph 2.3:   **Composition of the adjustment of the headline balance in the period 2017-2020, as planned in the 2017 SCPs (pps. of GDP)**
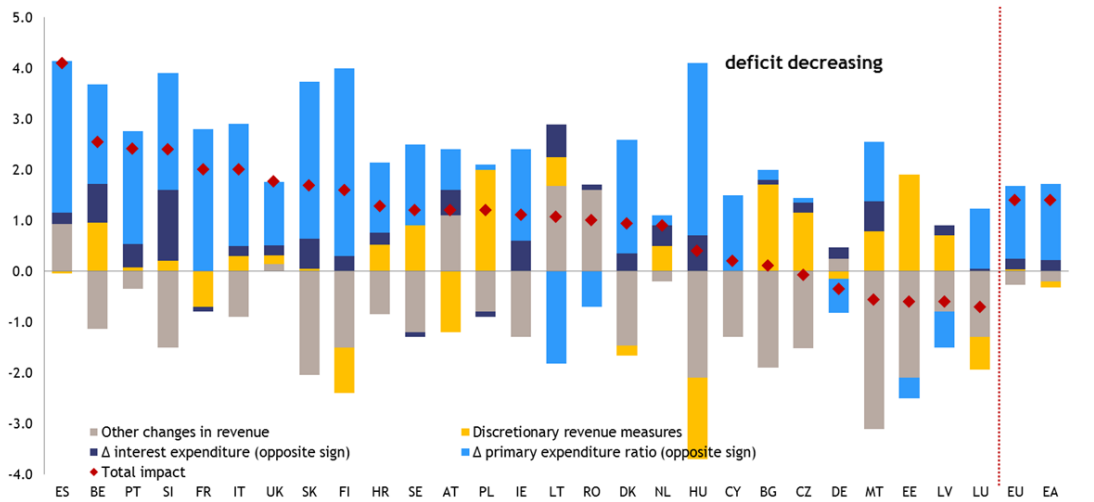
A positive sign indicates a contribution to the fiscal adjustment, in other words a drop in primary expenditure or interest expenditure is shown as a positive value, while a drop in revenues is shown as a negative value.
Source: 2017 Stability and Convergence Programmes.

The aggregate debt ratio started to fall in 2015 and is planned to decrease further throughout the programme horizon, reaching 83% of GDP in the euro area and 78% of GDP in the EU by 2020. The aggregate evolution of the debt ratio masks a wide range of national developments, with the highest expected reduction in CY, NL and PT. At the same time debt is planned to increase in EE, LV and LU, which are all very low debt countries. Of the member states with debt above the 60% of GDP reference value, only DE and NL plan to bring their debt below this threshold by the end of the programme horizon. Debt ratios in 2020 are projected to vary across individual Member States from above 100% of GDP in IT and PT to around 10% of GDP in EE, as shown in Annex 1 (Table A1.1).

Graph 2.4:   **Contributions to the change in the debt-to-GDP ratio in the period 2017-2020, as planned in the 2017 SCPs (pps. of GDP)**
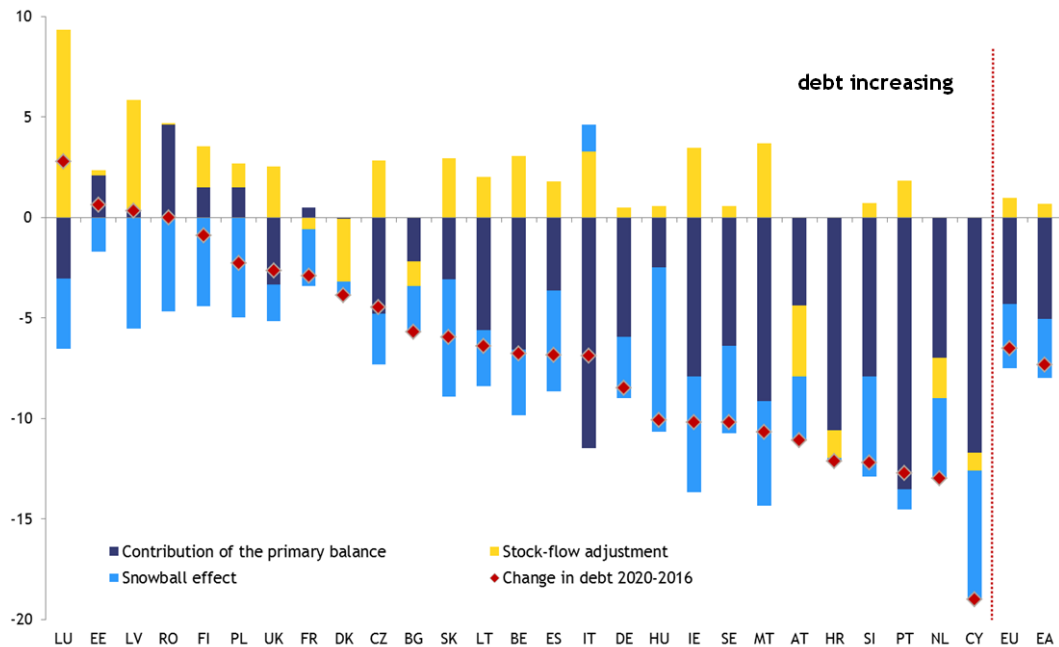
The graph disaggregates the 2017-2020 change to Member States debt-to-GDP ratios between the contributions of the primary balance, stock-flow adjustments and the snowball-effect, the latter of which refers to the interest rate-growth rate differential. Stock-flow adjustments are calculated as the residual between the annual changes in the debt levels of the SCPs and the reported headline balances. Values below (above) zero indicate a decreasing (increasing) impact on the debt ratio.
Source: 2017 Stability and Convergence Programmes.

Primary surpluses and a favourable snowball effect are expected to contribute to the projected reduction in the debt ratio of both the euro area and the EU. As shown in Graph 2.4, with the exception of IT, all member states expect a favourable contribution from the snow ball effect over the programme horizon, i.e. a debt-reducing impact thanks to average nominal GDP growth exceeding the implicit nominal interest rate on the outstanding debt. This is despite the fact that euro area Member States expect inflation to remain somewhat subdued throughout the SCPs period on average, but supported by historically low interest rates. Most countries plan primary surpluses that will contribute to overall debt reduction over the programme period, while in six countries, of which two (FR and FI) have a debt above 60% of GDP the contribution of the primary balance is projected to be overall debt-increasing over 2017-2020. In the case of FR and FI, the contribution of the primary balance is expected to turn debt-decreasing from 2019 onwards.

Box 2.3: Comparison with the Draft Budgetary Plans

The cycle of fiscal surveillance for euro area Member States is structured around two main milestones in the calendar year: the submission of Stability Programmes (SPs) in the spring and the submission of Draft Budgetary Plans (DBPs) in the autumn. While the latter concerns only the following year, the SPs cover a wider timespan and contain the authorities' medium-term fiscal strategies. However the two fiscal documents overlap for one year, 2017 in this case. The information contained in the SPs for 2017 is thus an update of Member States' plans as presented to their euro area peers last autumn. This box compares the 2017 overall macroeconomic outlook and budgetary targets for the euro area, as presented in the most recent DBPs and SPs. In the case of ES and LT, data from the no-policy-change DBPs as submitted in October 2016 is used. [1]

For 2017, the growth outlook is broadly unchanged from last autumn, with GDP growth forecast at 1.7% in the euro area versus 1.6% projected in the DBPs. The inflation outlook remains subdued, broadly in line with DBPs' projections. The GDP deflator is now expected at 1.3% in 2017. According to the SCPs, a slight tightening of 0.1% of GDP in the structural balance is foreseen in the euro area in 2017, in line with the projections included in last DBPs, as shown in graph D.1. However, in several Member States the expected change in the structural balance was modified since autumn last year: five countries are now planning a more restrictive – or less expansionary – fiscal stance than some months ago (CY, EE, ES, IT and SI) while another seven are now envisaging a looser one (BE, IE, LT, LV, MT, NL and SK). Turning to the headline balance, last autumn euro area Member States were planning to reduce the aggregate headline budget deficit by 0.3% of GDP in 2017. This reduction in the headline deficit is confirmed by the SCPs.

Graph 2.3a: **Change in the structural balance in 2017 as planned in the 2017 SCPs vs. 2017 Draft Budgetary Plans (% of potential GDP)**
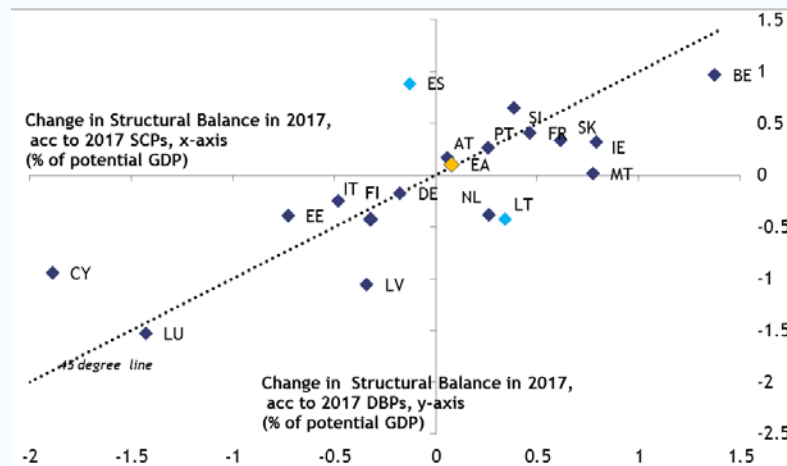
The graph plots the change in the structural balance in 2017 as planned in the 2017 SCPs against the 2017 DBPs. For Member States above the 45 degree line, the structural balance now appears more restrictive (less expansionary) than in autumn.
Source: 2017 Draft Budgetary Plans, 2017 Stability and Convergence Programmes.

[1] Both, ES and LT have submitted updated DBPs in December 2016.

Graph 2.5:   Starting level of debt in 2016 versus cumulated change in structural budget balance over the period 2017-2020
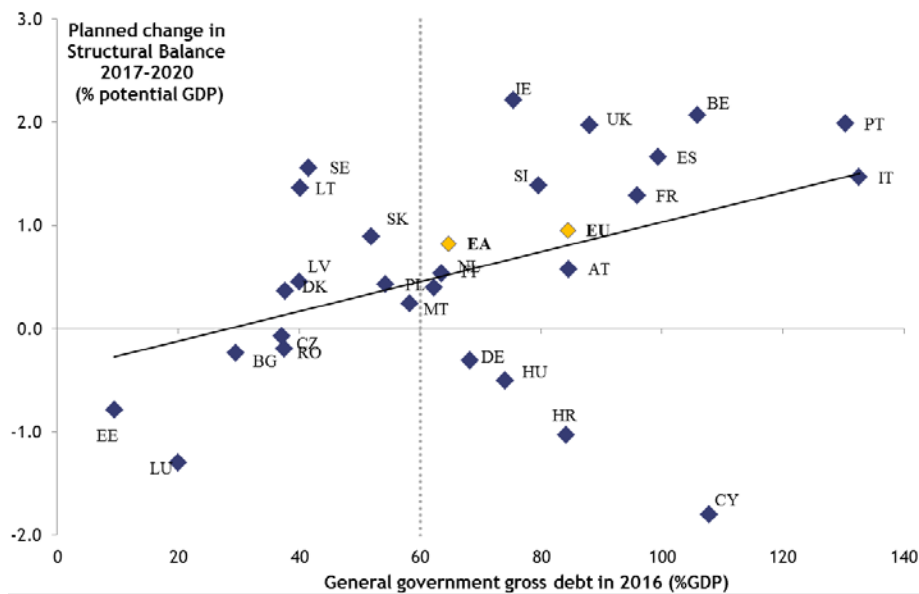
Source: 2017 Stability and Convergence Programmes, European Commission 2017 spring forecast.

The structural improvement planned by Member States is only weakly related with their debt positions. To put high levels of public debt on a sustainably decreasing path, fiscal adjustment is needed over the medium term. Graph 2.5 shows that more indebted Member States are more likely to pursue further structural adjustment, measured by the structural balance. However, in some cases such as IT and PT, the planned adjustment is significantly smaller than what a fiscal risk assessment, as encapsulated by the S1 indicator and discussed in Section 4, would suggest. Moreover, CY, HR, and HU plan a structural deterioration despite high levels of public debt.

2.2.   ASSESSMENT OF THE EURO AREA FISCAL STANCE IN 2018 WITH A VIEW TO THE POLICY MIX

This section analyses the euro area fiscal stance in 2018 in the context of the broader policy mix. Section 2.2.1 describes the monetary and fiscal stances in 2018. Section 2.2.2 then assesses the appropriateness of the euro area fiscal stance in the light of the policy mix. Finally, Section 2.2.3 discusses the fiscal stance emerging from the stability programmes.

2.2.1.   Description of the monetary and fiscal stances in 2017 and 2018

The monetary policy stance continues to be very accommodative (Graph 2.6 left). The ECB Governing Council decided in December 2016 to prolong its expanded asset purchase programme at a reduced monthly pace of 60bn EUR until at least December 2017 due to subdued inflation developments and medium-term inflation expectations that were still markedly below the ECB's 2% objective. This complements a range of unconventional policy instruments that have been introduced in recent years in the face of the zero lower bound (ZLB) on nominal interest rates, including cuts in policy rates into negative territory, targeted long-term refinancing operations aimed at supporting bank lending (TLTROs I and II), and forward guidance. Taken together, these measures have provided substantial monetary stimulus in a situation in which conventional interest rate policy was severely constrained.

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Graph 2.6:   Monetary policy stance in the euro area
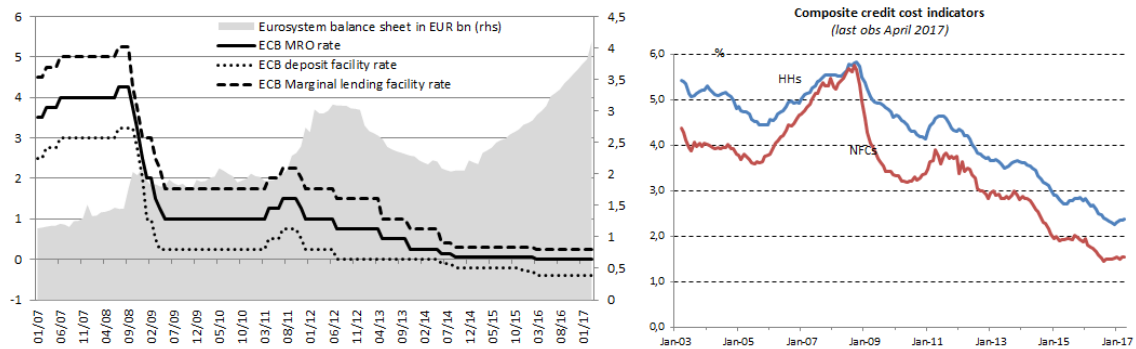
The CCCI combines information on loan rates and market-based debt funding. The CCCIs are calculated as weighted averages of interest rates on bank loans of different types and maturities and – in the case of non-financial corporations – corporate bond yields.
Source: ECB, Bloomberg, European Commission.

Although there are signs of a bottoming out of these measures, they have considerably eased monetary and financial conditions (Graph 2.6 right). Money market rates (EONIA) have traded closely above the ECB's deposit facility rate over the past years and are expected to remain close to current levels until at least the second half of 2018. Similarly, the composite credit cost indicator (CCCI) for non-financial corporations, which also incorporates bond yields, has declined by 40 basis points since January 2016, while its cross-country dispersion further narrowed significantly. However, a gradual levelling out of financing conditions can be observed as both average lending rates and the CCCI for non-financial corporations have remained broadly unchanged on balance since the third quarter of 2016. The yield curve has steepened somewhat since September 2016 on the back of higher expected inflation rates in conjunction with an improved overall growth outlook in the euro area. This comes after the ECB's conventional and unconventional monetary policy measures of the past years lead to both considerable downward shifts and a significant flattening of the yield curve, such that the overall levels of long-term rates remain at historical lows.

The euro area fiscal stance will remain slightly expansionary between 2017 and 2018 according to the Commission spring 2017 forecast (Graph 2.2a). This assessment holds true whether the fiscal stance is measured by the change in the structural primary balance or the DFE. Note also that the Commission forecast for 2018 is prepared under the assumption of unchanged policies and thus does not take into account additional measures by Member States. In terms of country allocation, ([12]) DE is expected to remain the key contributor of the supportive fiscal stance. Under the no-policy change scenario of the Commission forecast, FR, ES and IT are forecast to loosen their fiscal positions substantially in 2018. In terms of composition, the more supportive fiscal stance for the euro area as a whole mostly results from higher public spending in 2017 and 2018. The bottom-up approach points to some tax increases in 2017 (notably in ES and to a much smaller degree in FR and IT) and to a small tax reduction in 2018.

2.2.2.   What is the appropriate euro area fiscal stance in 2018 with a view to the policy mix?

Fiscal policy faces several objectives, in particular to ensure long-term sustainability and short-term stabilisation.([13]) These objectives can be presented on a "fiscal map" using the S1 indicator (to measure sustainability needs)([14]) and the output gap projected under the assumption of a neutral fiscal stance (to

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([12]) The country-specific conclusions are derived from the DFE indicator.

([13]) This follows the approach presented in European Commission (2016): Report on Public Finances in EMU (PFR): The fiscal stance in the euro area: Methodological issues, December. https://ec.europa.eu/info/sites/info/files/ip045_en_0.pdf

([14]) The S1 indicator measures the change in the structural primary balance (dSPB) required from 2017 to 2021 to bring general government debt to the reference threshold of 60% of GDP in 2031. For practical reasons the indicator used here is the S1 indicator according to the "2016 scenario", i.e. where the SPB is held constant at its last outturn value (for 2016). When outturn

measure stabilisation needs)([15]) (Graph 2.7). The assessment of stabilisation needs can also be supplemented with other indicators that notably capture remaining slack in labour and capital utilisation after the crisis (see Box 2.4).

Fiscal map: Sustainability and stabilisation challenges in 2018 (as % of GDP)
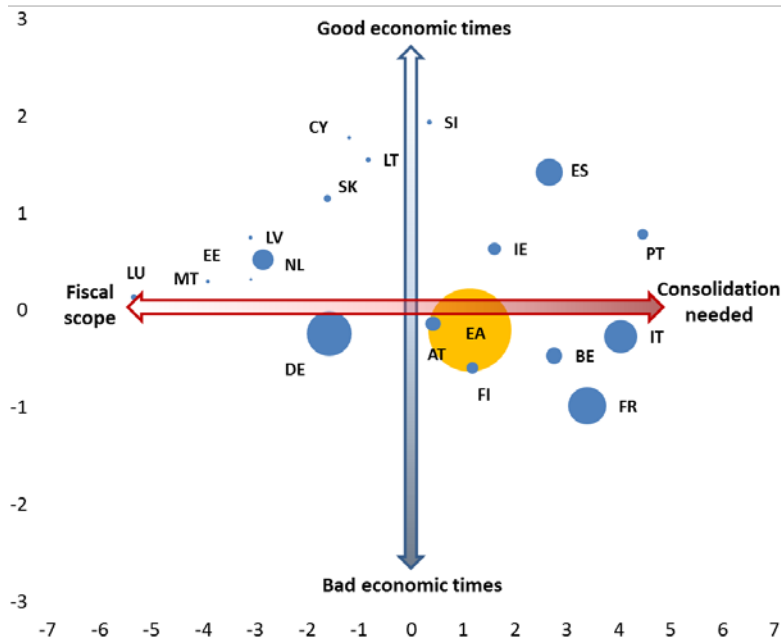
Horizontal axis: indicator of medium-term risk to the sustainability of public finances: S1 scenario 2016, which measures the total cumulative adjustment (in terms of change in the structural primary balance) that would be needed from 2017 to 2021 to bring the debt ratio to 60% of GDP by 2031. Vertical axis: Output gap for 2018 projected under the assumption of a neutral fiscal stance. Bubble size corresponds to nominal GDP in 2016.
Source: Commission spring 2017 forecast.

Despite the ongoing economic recovery, the fiscal map still points to a remaining trade-off between sustainability and stabilisation needs for the euro area as a whole for 2018. Placing the euro area as a whole in the fiscal map serves only illustrative purposes, since the objective of long-term sustainability is mainly relevant from a country-specific perspective in the absence of contagion effects. The euro area is located in the "south-east quadrant" of the map where such a trade-off is at play. Despite earlier consolidation, this reflects the remaining gap *vis-à-vis* a trajectory putting the debt on a firm downward path for the future together with the persistent albeit significantly reduced degree of the economic slack.

Striking the right balance between long-term public finance sustainability and supporting the economic recovery is therefore key.

On the one hand, there are reasons why discretionary fiscal policies should further support the economic recovery. According to the Commission spring 2017 forecast, the policy-supported economic recovery still remains moderate, with a slower closing of the output gap compared with past recoveries and risks to the outlook tilted to the downside. Despite recent improvements in the headline

data for 2017 become available, the updated S1 indicator will take that as a new starting point, and thus be more relevant for assessing consolidation needs in 2018. A caveat appears concerning the large fiscal space identified by the S1 indicator for Luxembourg and Estonia, which derives from the assumption of convergence of public debt to 60% by 2031. The robustness analysis suggests that these countries do have fiscal space, but arguably not to the extent suggested by S1.

([15]) Technically, the output gap expected for 2018 in the Commission forecast is adjusted for the impact of the projected change in the structural primary balance multiplied by an assumed uniform fiscal multiplier of 0.8.

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unemployment figure, significant slack remains in the labour market (Graph 2.8). In addition, workers' inflation expectations for the wage formation process seem to have adapted to the current low inflation environment as illustrated by the continuous downward shift of classical Phillips curve over time (see Graph 2.9). Over the next two years, wage growth is expected to remain constrained and the investment gap is expected to persist, while core inflation is forecast to stay subdued. This suggests that there is still scope for higher growth without triggering inflationary pressures. Moreover, the current account of the euro area is largely positive and expected to remain large, suggesting room for further expanding domestic demand relative to the global economy (Graph 2.10).[16] A fiscal support could – in a situation of constrained monetary policy –also be in a better position than usual to stabilise the economy, since multipliers are expected to be large, especially if the deleveraging needs of the private sector are high. In addition, the low funding costs make it worthwhile for governments to frontload investment programmes through new lending, especially where public investments are at historical lows and there are identified needs. A fiscal expansion could therefore contribute to a faster decline of unemployment towards pre-crisis levels and a reduction in the investment gap thereby contributing to a faster return to a normalised environment and standard monetary policy.

On the other hand, there are strong arguments to reduce excessive levels of debt and re-build fiscal buffers. According to the Commission spring 2017 forecast, the economy is performing well and output gaps are closing significantly. In addition, the current period of negative interest rate growth differentials offers a chance to adjust the debt ratios, which are on average declining at a very slow pace and still remain close to their historic peaks. This seems to be particularly needed to learn the lessons of the past and re-build fiscal buffers at an early stage to be able to absorb potentially upcoming shocks. The strengthening recovery in the euro area and the associated steepening of yield curve observed since the fourth quarter of 2016 suggest that the opportunity presented by the current low financing cost environment might be slowly fading. This means that governments should also use the opportunity to strengthen the sustainability of their policies, especially where debt ratios are high, by curbing less growth-friendly spending and cutting tax loopholes.

Against these considerations, a broadly neutral fiscal stance seems to be appropriate for the euro area as a whole in 2018. While a broadly neutral fiscal stance would require changes compared to the no-policy change scenario of the Commission spring 2017 forecast, it could be implemented in line with the requirement of the Stability and Growth Pact. Cross-country spillover effects can also non-negligibly increase the ability of an appropriately differentiated fiscal stance, i.e., one in which Member States with fiscal space make use of it, to better reconcile stabilisation and sustainability objectives (see for more details Box 2.5). In other words, it may allow the countries that need to consolidate, in line with sustainability objective, to do so at a lesser cost.

The fiscal map also highlights the diversity of country situations and possible implications for the distribution of fiscal policies:

- Countries located in the south-east quadrant of the fiscal map face a similar trade-off than the euro area as a whole. This is a situation where credible consolidation needs to be pursued while managing the cyclical consequences. These countries include two of the largest contributors to the overall euro area picture (FR and IT) together with AT, BE and FI.

- The only country in the south-west quadrant of the map, DE, is assessed to combine a degree of fiscal scope, in the sense that their debt is low or being very rapidly reduced (a negative S1), with moderate stabilisation following a long period with a negative output gap. This indicates a situation involving no apparent trade-off from an economic perspective, as the existing fiscal scope could be mobilised to support the economy, especially by investing in long-term growth.

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[16] See Buti, M. Leandro, J. and K. Berti (2017): An unusual recovery: Charting the way forward for European policymakers, EU Vox, 12 May.

- Countries in the north-east quadrant, namely ES, IE, PT and SI, seem to be in the opposite situation, which unambiguously calls for fiscal consolidation. These countries face significant remaining consolidation needs while experiencing good times.

- Finally, the remaining countries are located in the north-west quadrant. These countries are expected to be in good times while enjoying fiscal scope. The policy implications for these countries are less clear, since there is a trade-off between countries' own stabilisation needs and the positive impact of using the fiscal scope on the rest of the euro area.([17])

In terms of the broader policy mix, it remains key that fiscal, monetary and structural policies work together. This requires notably improving the quality of public finances and enhancing its composition. For instance, improvements in national fiscal frameworks could help fostering the growth-friendliness of public spending, not least through the set-up of efficient spending reviews and stronger public finance management at all levels of government. Reforming pension and health-care systems can further enhance the quality of public finances. Some Member States could reprioritise the composition of their public finances, e.g. in favour of public investment. In addition, tax shifts away from labour, particularly for low-income earners and in Member States where cost competitiveness lags behind the euro area average, would be welcome. These could be designed in a budget-neutral way for countries without sufficient fiscal room of manoeuvre. Finally, well-designed labour and product market reforms are important not only for strengthening the adjustment capacity of Member States, but also for creating sustainable growth. By facilitating the reallocation of resources across firms and sectors in case of shocks, they can improve innovation processes, thereby boosting productivity growth.

Graph 2.8:   **Underemployment and potential labour force, euro area (in % of labour force)**
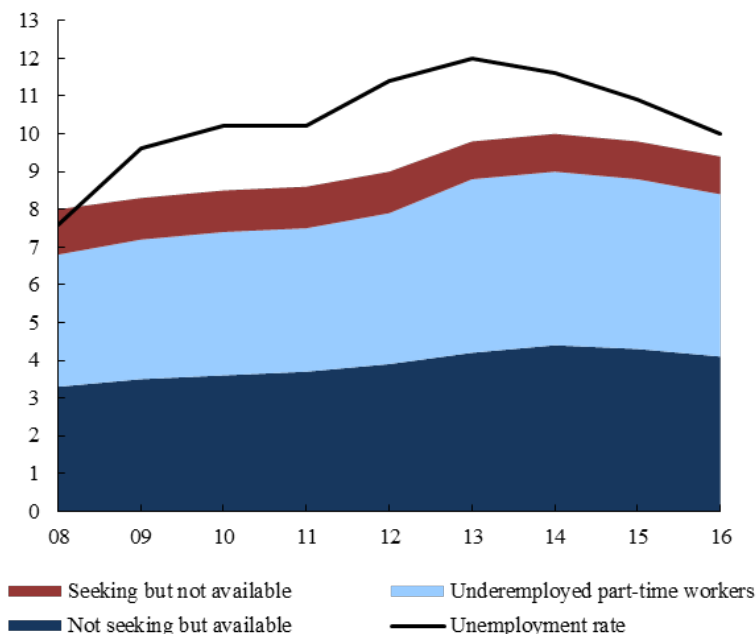
The chart shows the development of a broad measure of unemployment slack. This takes into account the underemployed (part-time employees willing to work more hours), the potential additional labour force (persons seeking work but not available and persons available to work but not seeking) in addition to the usual "headline" unemployment rate. The chart shows that despite the recent improvements in the headline figure, significant slack remains in the labour market.
Source: European Commission, spring 2017 forecast, p. 29.

([17]) It should be stressed again here that the economic considerations drawn from the fiscal map that follow can in no way dispense Member States from their obligations under the SGP.

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Graph 2.9:   **Phillips curves for different horizons**
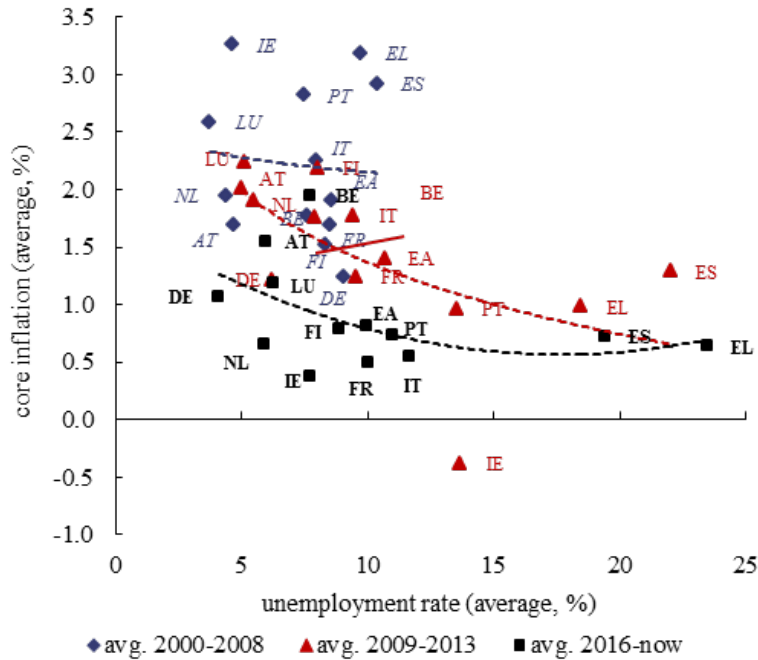
Source: European Commission, spring 2017 forecast, p. 53.

Graph 2.10:   **Current account balances, euro area and Member States (% of GDP)**
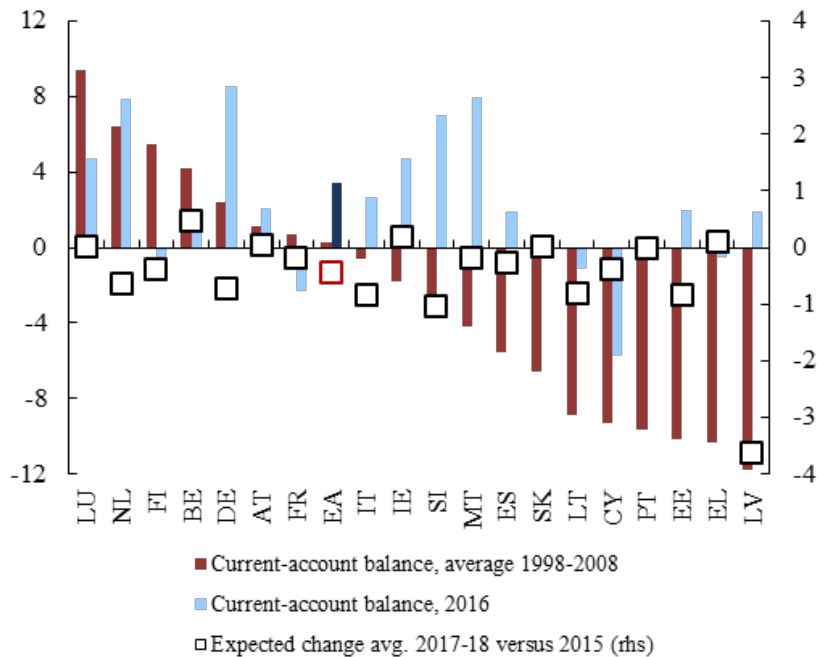
Source: European Commission, spring 2017 forecast, p. 28.

Box 2.4: **Indicators of cyclical conditions to assess stabilisation needs**

The assessment of the stabilisation needs requires identifying the position in the economic cycle. This box presents and assesses key indicators to analyse the cyclical conditions.

A.   Output gap is a key indicator to assess cyclical conditions

The output gap is a natural candidate to synthetically assess the position in the cycle. It measures the gap between potential and actual output, thus gives an estimate of whether the economy is booming or lagging behind compared to its potential. For fiscal surveillance in the EU, the output gap is estimated using a commonly agreed methodology based on a production function since 2002. This approach was adopted by the ECOFIN Council following approval from the Economic Policy Committee (EPC) and has replaced the Hodrick Prescott filter used until 2002.([1])

The use of the output gap has several merits. It is a widely used indicator to disentangle the trend and the cycle of GDP growth, although with different methodologies to estimate potential output. Evidence shows that the Commission methodology has performed better than estimates by the OECD and IMF with respect to its ability to track the euro area's business cycle.([2])

Despite its conceptual relevance, the output gap faces several challenges.

- **It is based on non-observables** as it requires an estimate of potential growth, which makes it sensitive to the methodology used.

- **It is difficult to assess the position in the economic cycle and its dynamics in real time**. This often results in successive revisions, sometimes several years after the period considered.

- It is particularly challenging to estimate the output gap in atypical times such as the current recovery marked by low inflation. The method used to calculate the output gap equates potential output with the level of output corresponding to non-accelerating inflation. If the true relationship between the amount of slack and inflation deviates from the assumed one, output gaps may be biased. For instance, real wage rigidity caused by atypical factors outside labour market institutions may imply that wages do not react in line with developments of cyclical unemployment:([3]) in some countries, indeed, many new jobs have been of a lower quality compared with before the crisis, as suggested by the significant increase in share of temporary or part-time workers, which can contribute to mitigate inflation dynamics. It is then possible that the estimate wrongly considers a part of the observed unemployment as structural, while it is in fact cyclical. This would imply an underestimation of the cyclical unemployment, thus of output gaps. The recovery in those counties may be more fragile than suggested by the estimated output gaps.

([1]) The EU's Economic Policy Committee (EPC) has a dedicated working group (the Output Gap Working Group - OGWG) which meets regularly to discuss the operational effectiveness and relevance of the existing production function methodology. See also Havik K., K. Mc Morrow, F. Orlandi, C. Planas, R. Raciborski, W. Roeger, A. Rossi, A. Thum-Thysen and V. Vandermeulen (2014), The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps, European Economy - Economic Papers 2008 - 2015 535, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission.

([2]) See Mc Morrow, K., W. Roeger, V. Vandermeulen and K. Havik (2015), An assessment of the relative quality of the output gap estimates produced by the EU's production function methodology, European Commission Discussion Paper 020, December.

([3]) See Borio, C., P. Disyatat and M. Juselius (2014) A parsimonious approach to incorporating economic information in measures of potential output, *BIS Working Papers*, No 442, February. The estimate of the output gap relies in part on the estimate of the NAWRU. The latter is estimated on the basis of a Phillips curve, i.e. the negative relation between the change in wage inflation and cyclical unemployment.

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Box (continued)

B.   Additional indicators to assess cyclical conditions

While the value of the output gaps is sometimes debated, some economists point to the need to supplement it with a richer assessment based on a range of cyclical indicators. Since 2016 a plausibility tool based on several cyclical indicators has also been used to assess the plausibility of the production function-based output gap estimates.[4]

1.   Alternative measures based on the output gap

Other measures of the output gap, notably by the OECD and the IMF, can be used as a robustness check. By the same token, the output gap can be derived from a structural unemployment rate (SUR), instead of the NAWRU used in the Commission methodology. The SUR is the part of the NAWRU that can be explained by institutional factors. As a result, the SUR-based output gap is expected to be more stable than the standard output gap.

Analysing output gap dynamics in light of the shape and length of the cycle can also help to assess stabilisation needs. Empirical analyses of fiscal policies usually measure the cyclical conditions by the output gap, either in level or in change, at best by a combination of both. However, an important question to assess stabilisation needs is also how long and deep the cycle has been. The PFR (2016) developed a methodology to use three sets of the shape of the economic cycle, namely the length, the depth and the pace of closure.[5]

2.   Example of additional indicators of slack and of scope for further demand support

Survey-based indicators measuring capacity utilisation can also help to detect slack in the real economy. For instance, the Commission ECFIN Business and consumer surveys report the extent to which factors such as the availability of labour and the level of demand limit production.[6] However, the capacity utilisation rate covers only one sector of the economy and, regarding the factors constraining production, these survey data are by nature subjective.

Labour market statistics can indicate slack in labour utilisation. For instance, unemployment rates can capture the slack in labour utilisation better than the output gap, notably if the measures of the output gap are thought to underestimate cyclical unemployment. Persistently higher long-term unemployment rates than before the crisis can also point to hysteresis effects that can lower growth potential, and in fine pose a supplementary risk on fiscal sustainability (see chart A): undertaking policies to reduce long-term unemployment in a sustainable manner (e.g. by focusing on the skill structure) can then help to mitigate such risks, provided that the incurred costs do not increase risks on sustainability to a larger extent. In addition, other indicators of "underemployment" can provide an alternative measure of labour market slack not captured by the unemployment rate, e.g. by combining the estimates of the unemployed, the underemployed (those working fewer hours than wished) and the "marginally attached to the labour force". [7] In the euro area, this broad indicator is much higher than the unemployment rate, and has decreased much more moderately during the recent recovery.

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[4] See Hristov A., R. Raciborski and V. Vandermeulen (2017), Assessment of the Plausibility of the Output Gap Estimates, Economic Brief 023, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission.

[5] See European Commission (2016): Report on Public Finances in EMU, Economic and Financial Affairs, Institutional Paper 045, December.

[6] See http://ec.europa.eu/eurostat/cache/metadata/en/ei_bcs_esms.htm.

[7] See ECB (2017): Box Assessing labour market slack, Economic Bulletin, issue 3. The latter component is a measure of potential additional labour force and comprises both those who are not currently seeking work, despite being available (mainly "discouraged" workers); and those who are actively seeking work, but are not (yet) available to begin work. The OECD and the US Bureau of Labor Statistics also use this broad measure.

Box (continued)

A persistent "investment gap" can also show slack in capital utilisation. For most of the euro area countries heavily hit by the crisis, investment remains much below pre-crisis levels, even when excluding the housing bubble period (see chart B below).

Some other indicators may not indicate a slack per se, but nevertheless suggest scope for further demand support. For instance, in some countries, persistently low wage growth and core inflation and rising current account surplus in recent years, point to room for fiscal policies to support aggregate demand without triggering inflationary pressures.

Graph 2.4a: **Expected output gaps in 2018 and slack in labour and capital utilisation**

Chart A: **Slack on labour market and output gap**   Chart B: **Investment slack and output gap**
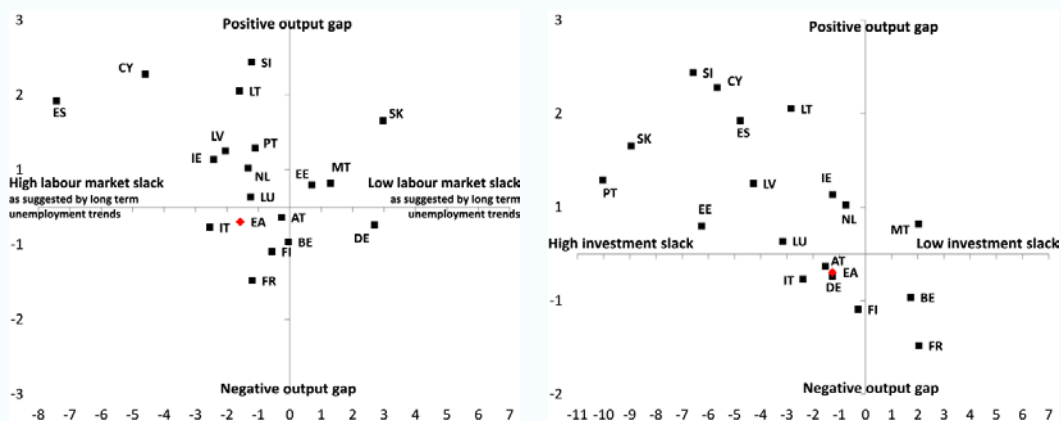
The vertical axis shows for both charts the expected output gap in 2018 assuming a neutral fiscal stance in 2018 (i.e. no change in the structural primary balance compared to 2017). A positive (negative) output gap denotes good (bad) economic times. The horizontal axis shows, the development in long-term unemployment rates between 2007 and 2018 (for chart A, axis reversed), and the development in total gross-fixed capital formation as a % of GDP between the period 1995-2005 and 2018 (for chart B). Eurostat data and Commission forecasts used, assuming for each country a constant share of long term unemployment in total unemployment between the last available year for statistics and the forecasts of unemployment rate for 2018.
Example: countries located in the "north-west quadrant" of chart A (resp. chart B) expect in 2018 a positive output gap, but also possible slack with regard to labour market (resp. total investment).

Source: European Commission 2017 spring forecast.

2.2.3. Assessing the fiscal stance derived from the stability programmes

The aggregation of the Member States plans presented in the stability programmes points to a neutral fiscal stance. More precisely, the structural primary balance would only improve by 0.1 % of GDP in the euro area (Graph 2.11). This is line with the above assessment that a broadly neutral stance would be appropriate area-wide, striking a balance of considerations.

- The sustainability needs would point to a needed consolidation of 0.2 to 0.6% GDP (to close the S1 gap by 25 to 50%).

- As regards stabilisation, a very mild expansion of close to 0.1 percent of GDP would ensure that fiscal policy supports a closure of the output gap by 25% or 50% on top of that expected momentum.

There is scope for a better differentiation of planned fiscal stance across Member States:

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- DE already plans a mildly expansionary stance in 2018. The remaining fiscal scope could be used for supporting growth, preferably by fostering future-oriented outlays. ([18])

- In some other countries the plans are tilted towards the stabilisation objective, although this conflicts with the identified sustainability needs. Among the large countries, this is most apparent in the case of ES, which plans a smaller consolidation as identified according to the stabilization and sustainability objective.

Graph 2.11: **Change in the structural primary balance in 2018 in the stability programmes against sustainability and stabilisation needs (% of GDP)**
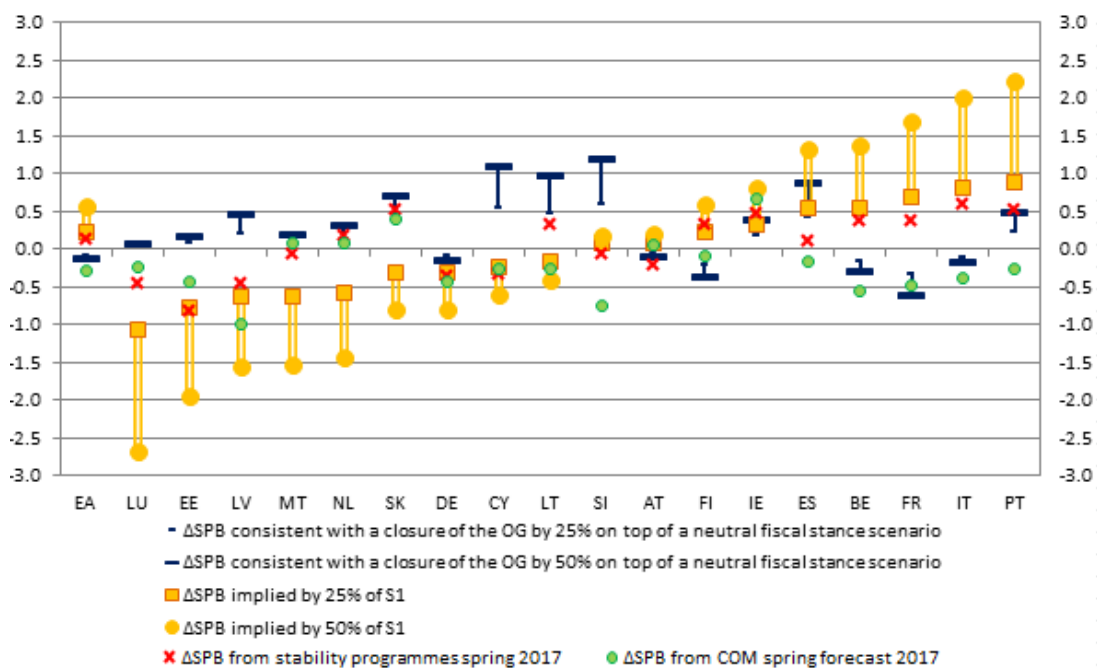
Member States are grouped by the S1 indicator.
How to read this chart:
The sustainability criterion is based on the S1 indicator and assumes that 25 % to 50 % of the indicated change in the SPB is implemented in 2017, corresponding to more or less frontloading of the consolidation effort if S1 is positive. For countries with a negative S1, this indicates some scope for expansionary policies in response to possible stabilisation needs. The stabilisation criterion is measured as the change in the SPB for which fiscal policy reduces by 25% (short blue bar) or 50% (long blue bar) the output gap that would result from a neutral-fiscal policy scenario in 2018, (see European Commission (2016): The 2016 Stability and Convergence Programmes, Institutional Paper 34, September). In other words, this output gap closure of 25% or 50% is achieved in addition to the spontaneous output gap closure, as projected in Spring 2017 Commission forecast (adjusted by assuming neutral fiscal stance). This assumes that fiscal policy always plays a countercyclical role, either supporting the closure of the output gap or mitigating its widening. If the neutral-fiscal-policy assumption implies that the output gap is changing sign, then the stabilisation objective caps the closure of the output gap at 100%, thus avoiding pro-cyclicality.
The red crosses show the planned changes in the SPB presented by Member States in their 2017 stability programmes, as recalculated by the Commission using the commonly agreed methodology for potential output. The green dots show the change in the SPB according to the Commission spring 2017 forecast, which is derived on a no-policy change assumption.
Source: European Commission services based on Commission spring 2017 forecast and stability programmes.

([18]) The effects of an increase in public investment in Germany, as well as in the Netherlands, are studied in *QUEST simulations of spillovers of a public investment stimulus in surplus countries*, Note for the attention of the LIME working group, 15 June 2016. In Germany and the Netherlands, an investment stimulus would boost domestic demand, lift up prices and reduce the current account surpluses. Other euro area economies would benefit from positive trade spillover effects on GDP, and a limited favourable impact on their current accounts. The positive effects and spillovers are magnified under the assumption that monetary policy stays at the zero lower bound and accommodates the stimulus. When monetary policy is constrained, GDP in the rest of the euro area is increased by about 0.3% at a 2-year horizon following a 1% of GDP investment increase in Germany and the Netherlands.

Box 2.5: Euro area fiscal stance including spillover effects – an illustration

This box presents, for illustrative purposes, some simulations on the potential impact of cross-country fiscal spillovers on the euro area fiscal stance. They should neither be taken at face value, nor as an attempt to "fine-tune" Member States' fiscal policy. They rather suggest that spillovers can have a non-negligible impact in the present context of persistently very low inflation, despite uncertainty about its precise magnitude, and thus could be used to help at the same time sustainability and stabilisation. The exercise focuses on the short-run stabilisation effects, rather than the long-term growth impact.

As a starting point, the fiscal impulse used for the assessment of fiscal spillover effects is calculated as the annual the change in the structural primary balance (dSPB) in 2018, as in European Commission (2016). ([1]) In this setting, a positive (*negative*) dSPB points to a positive (*negative*) fiscal impulse. Assumptions on fiscal impulses by Member States need to be made: Germany and the Netherlands use their fiscal space to loosen their fiscal policy by 0.5% of GDP. The fiscal policy in the other countries aim *at further closing the output gap in a given year by 50%* compared with the output gap development foreseen in Spring 2017 Commission forecast. The forecasts (under no-policy change assumption) are adjusted assuming a neutral fiscal stance.

For each Member State, the cumulated GDP effect from fiscal impulses in all other Member States is also calculated. This requires estimating the elasticities of bilateral spillover effects, which are derived from QUEST simulations distinguishing two possible size for the spillover effects. These spillovers are larger than in normal times since simulated in the context of a very low inflation and interest rates environment (corresponding to a monetary policy at the "zero lower bound"): ([2])

1. *Low spillover effects* assume no change in the structure of the countries' budgets. This means that a fiscal expansion by 1% of GDP in a given big four euro area countries will increase GDP in the other euro area countries by up to 0.12% of GDP.

2. *High spillover effects* assume a more growth-friendly composition of the fiscal adjustment, through a boost in public investment, leading to higher impacts on GDP. A fiscal expansion of 1% of GDP in a given big four euro area countries is estimated to increase GDP in the other countries by up to 0.28% depending on the country. ([3])

While these growth spillovers do not affect Member States' fiscal stances per se, they influence the effect thereof on the closure of output gaps and the change in headline budgetary balances. The analysis then distinguishes two scenarios, depending on whether the fiscal stance is adjusted in response to the presence of spillovers:

Scenario 1: Member States benefit from spillovers but keep their fiscal stances unchanged.

The expansion in Germany and the Netherlands leads to an overall positive growth spillover for the euro area. This amounts to an increase by +0.10 and +0.06% of potential output for the euro area aggregate, resp. for high and low spillovers multipliers. This spillover helps the euro area close its output gap faster (see Table 2.5a below).

([1]) European Commission (2016), Report on Public Finances in EMU, [Occasional paper 045].

([2]) See In 't Veld, J. (2013): Fiscal consolidations and spillovers in the Euro area periphery and core, Economic Papers 506, European Commission, October. To estimate spillovers from "small euro area counties" (which are aggregated in one group in simulations), aggregate spillovers from this group are weighted by the individual GDP shares within this group. Robustness checks were also performed by considering bilateral trade linkages, but this does not change the overall results. Effects of other countries on these small euro area countries are also taken as constant.

([3]) See In 't Veld, J. (2016): Public investment stimulus in surplus countries and their Euro Area spillovers, ECFIN Economic Briefs 16, Brussels. The case of an investment stimulus in surplus countries with monetary accommodation is considered. Efficiency of public investment and borrowing costs remain however unchanged in this scenario.

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Box (continued)

Table 2.5a: **Cross-country spillover effects from an expansion of Germany and the Netherlands: euro area aggregates**

	Growth spillover effects (% of potential output)	Closure of output gap* (for all countries except DE, NL)
without spillover effects	-	50%
with low spillover effects	+0.06	99%
with high spillover effects	+0.10	123%

* compared with the output gap development foreseen in Spring 2017 Commission forecast (adjusted by assuming neutral fiscal stance).

Scenario 2: Member States adjust their fiscal stances to stick to their initial stabilisation target (closure of output gap by 50%).

The expansion from Germany and the Netherlands can help the other countries to reach their stabilisation target with more consolidation, thereby allowing them to improve their public finances sustainability. As a result, assuming low spillovers, a euro area fiscal stance of only -0.15 would be required, compared to -0.27 without spillovers, to achieve the same closure of the output gap. Assuming high spillovers would require a fiscal stance of only -0.09 (see Table 2.5b below).

Table 2.5b: **Adjusted euro area fiscal stances for 2018, considering spillover effects, sticking to targets (measures as dSPB % of potential GDP)**

Fiscal impulse from Germany and the Netherlands (excl. spillover effects)*	
	-0.27
With low spillover effects	-0.15
With high spillover effects	-0.09

* output gap closure by 50% compared with the output gap development foreseen in Spring 2017 Commission forecast (adjusted by assuming neutral fiscal stance).

3. RISK ASSESSMENT OF MEMBER STATES' PLANS

This section analyses possible risks to the attainment of the aggregate budgetary targets set out in the 2017 SCPs. The assessment of risks is conducted differently for the sub-period 2017-2018 and the outer years of the programme horizon (2019-2020). The reason is that only the 2017-2018 period is covered by the Commission 2017 spring forecast. Section 3.1 presents a comparison between the aggregate headline deficit targets for 2017 and 2018, as planned in the SCPs and as forecast by Commission services. The drivers of possible differences between the two are discussed. Section 3.2 checks the feasibility and internal consistency of Member States' budgetary targets for 2019 and 2020.

3.1. FORECAST HORIZON: RISKS TO 2017 AND 2018 PLANS

The Commission 2017 spring forecast provides a natural benchmark against which to assess the macroeconomic projections for 2017-2018 and the expected yield of the budgetary measures as planned in the 2017 SCPs. A difference in projections points to risks, especially if plans are more favourable. Still, such differences may also be linked to the fact that the Commission forecast only takes measures into consideration, which are deemed sufficiently well specified and credibly announced, and that SCPs were in many cases only available after the cut-off date for the Commission 2017 spring forecast.

In the comparison between SCPs and the Commission's projections, risks to headline deficit targets seem limited in 2017 on aggregate terms, but turn important in 2018, essentially reflecting different assumptions regarding policy measures. The growth and inflation outlook are almost fully aligned in 2017 and 2018, as shown in Table 3.1. The headline deficit targets in 2017 are aligned as well. However, for 2018, MS' fiscal plans are significantly more favourable. For both the euro area and the EU, MS expect the aggregate headline deficit to be lower than according to the Commission forecast, by 0.4% of GDP and 0.3% of GDP respectively.

Table 3.1:   Nominal growth and Government headline balances in 2017 SCPs and Commission forecast

		2016	2017		2018	
		Commission forecast	Commission forecast	2017 SCPs	Commission forecast	2017 SCPs
EU	Headline balance (% GDP)	-1.7	-1.6	-1.6	-1.4	-1.1
euro area		-1.6	-1.4	-1.3	-1.4	-0.9
EU	Real GDP growth (% change)	2.0	1.9	1.9	1.9	1.8
euro area		1.8	1.7	1.7	1.8	1.7
EU	GDP deflator (% change)	1.1	1.3	1.4	1.6	1.6
euro area		0.9	1.1	1.3	1.4	1.5

Source: European Commission 2017 spring forecast, 2017 Stability and Convergence Programmes.

The difference in headline deficit projections with respect to Commission forecast can be decomposed into three main components: a base effect, reflecting possible differences in the previous year deficit forecast; a standardised measure of the "growth gap" which measures the difference resulting from different nominal growth assumptions,[19] and a residual which includes the so-called "policy gap" and measures the difference in the assessment of budgetary measures underlying the projected fiscal targets.

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[19] Different nominal growth forecast for a given year can result in different headline deficit forecast. The OECD standard semi-elasticities are used – in the absence of a better parameter – to approximate the effect that such different nominal growth forecast can have in the headline deficit prospects.

The SCPs real growth and inflation assumptions for 2017 are generally close to those of the Commission. Real growth expectations are almost fully aligned on the aggregate, as shown in Table 3.1. However, SCPs entail on average more important fiscal adjustment which would ceteris paribus be expected to result in a somewhat more prudent growth forecast. Inflation expectations are somewhat higher according to plans, exceeding values in the Commission forecast by 0.2 pp in the euro area and 0.1 pp in the EU. However, the impact on the deficit outlook is limited to less than 0.1% of GDP on the aggregate, as shown in Graph 3.1.

Regarding 2017, large divergences between Commission and Member States' deficit projections at country level mostly relate to the policy gap. On the aggregate, differences are small. In the case of PT, AT, BE, SI and RO, Member States project smaller headline budget deficits than Commission services, by an amount that ranges between 0.3% of GDP and 0.6% of GDP. With the exception of RO, the residual accounts for the bulk of the difference between the two estimates, suggesting that these Member States' evaluation of the 2016 budgetary measures may be optimistic compared to Commission's assessment, as shown in Graph 3.1. Different assumptions regarding interest expenditure explain part of the gap for BE, BG, FI, MT, SI, SK and RO.

Graph 3.1:   General government balance for 2017: decomposition of the gap between SCPs and the Commission 2017 spring forecast (pps. of GDP)
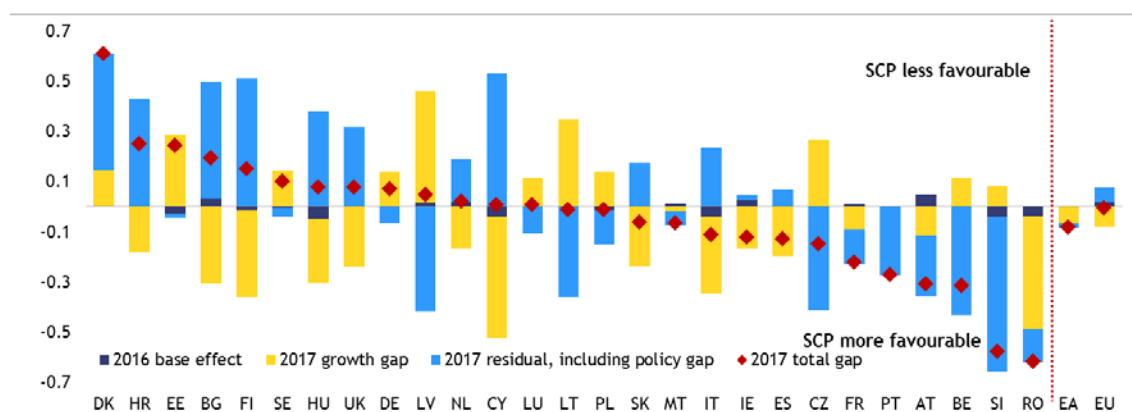
The graph shows a decomposition of the difference between the deficit figure in 2017, as per the SCPs and Commission forecast into (i) base effect, (ii) difference in a standardized measure of the growth gap and (iii) a residual. The growth gap is calculated multiplying the difference in nominal growth assumptions times the standard OECD semi-elasticities. The residual includes the so-called "policy gap", i.e. the difference in the evaluation of budgetary measures. It also includes possible differences in revenue elasticities or interest payments. Values below zero imply that the component has a deficit reducing effect in the SCPs relative to the Commission 2017 spring forecast, while values above zero indicate that the component increases the SCPs deficit relative to the Commission forecast. The sum of the components is the difference between the COM headline balance forecast and the SCP headline balance forecast.
Source: European Commission 2017 spring forecast, 2017 Stability and Convergence Programmes.

Turning to 2018, the differences in headline deficit projections are sizeable and mostly explained by the policy gap. Headline deficit projections in the euro area and in the EU are 0.4% of GDP and 0.3% of GDP respectively more optimistic according to plans than according to the Commission forecast. It is mostly explained by the residual. This suggests that policy measures contribute more to the improvement in the headline balance according to Member States' programmes than according to Commission forecast. In seven MS, namely BE, FR, IT, LT, PT, RO and SI, this difference is particularly sizeable, ranging from 0.5% of GDP for LT to 1.2% of GDP for BE. In most of these cases the residual again explains the main part of these differences. At prima facie, it is not surprising that on average Member States' projections for 2018 are somewhat more favourable than the Commission ones, as the budgetary measures for next year have not always been spelled out in sufficient detail to be taken into consideration

in the last Commission forecast, which are based on a "no-policy change" assumption.([20]) However, the differences at in the 2017 SCPs appear more sizeable than in previous vintages, which may indicate less prudent fiscal plans. On aggregate, different assumptions for interest expenditure do not contribute to the growing policy gap in 2018. At Member State level, only LT and SI include substantially lower interest expenditure in 2018 than projected in the Commission forecast, which are not (fully) explained by different projections for the debt level.

SCPs projections for 2018 real growth and GDP deflator are in line with the Commission forecast on aggregate terms, as in 2017. Indeed, the impact of differing macro assumptions on headline deficits is very limited, as reflected in the growth gap shown in the Graph 3.2, which is close to zero on the aggregate. In some MS however, differences turn more substantial. CY, PL, HU and RO stand out as the most optimistic Member States compared to the Commission forecast. On the contrary, FR and LT are basing their fiscal plans for 2018 on less upbeat macroeconomic projections, which are largely explained by the higher structural effort compared to the Commission forecast.([21]) It can be noted that potential risks stemming from inaccurate macroeconomic forecasts are likely to be attenuated in Member States where the programmes are based on independently produced or endorsed forecasts (see Box 3.1 for details). Finally, the 2017 base effect does not appear to have a relevant explanatory role in 2018 on the aggregate. Nonetheless, on country level, it reflects the differences between plans and Commission forecast for 2017, which in some cases are sizeable.

([20]) The "no-policy change" assumption, implies the extrapolation of revenue and expenditure trends and the inclusion of only those measures that are known in sufficient detail.

([21]) The large growth gap in the case of SI is mainly stemming from a large difference in expected inflation and hence, nominal GDP growth.

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Box 3.1: **Independent production or endorsement of the macroeconomic forecasts underpinning the stability and convergence programmes 2017**

Acknowledging the crucial role that realistic macroeconomic forecasts play in budgetary processes, Article 4(4) of the Two-Pack Regulation (EU) No 473/2013 lays down inter alia the requirement that euro area Member States shall base their national medium-term fiscal plans, to be made public by 30 April each year, on independent macroeconomic forecasts. Article 2(1b) of the Regulation defines independent macroeconomic forecasts as *"macroeconomic forecasts produced or endorsed by independent bodies".*

Out of the 18 Member States which submitted stability programmes (SP) in spring 2017, five (AT, BE, LU, NL and SI) relied on macroeconomic forecasts prepared by external independent producers. In FI a special mechanism was put in place, ensuring that the macroeconomic forecast is produced independently within the Ministry of Finance by the Economics Department which is operationally independent from the Budget Department; however, the 2017 stability programme states that the independent macroeconomic forecast for 2018-2020 was adjusted to the government's fiscal targets, which raises questions on adherence to the Two-Pack.

In 11 Member States (CY, EE, ES, IE, IT, FR, LV, LT, MT, PT and SK), the official macroeconomic scenario was produced by the government and subsequently endorsed by an independent fiscal institution. In some cases, the independent bodies granted their overall endorsement but put into question governments' estimates of potential growth and concomitant output gaps, which in turn had impact on the calculation of fiscal balances in structural terms. Several fiscal councils pointed at the balance of risks being tilted to the upside.

In DE, there is still no independent body in charge of producing or endorsing the official macroeconomic forecasts. This also holds for the macroeconomic scenario underlying the stability programme, which is based on the federal government's macroeconomic forecast published in January 2017. To address this shortcoming, in February 2017 the federal government presented a law to parliament, which requires the federal government's annual spring and autumn projections to be reviewed and endorsed by an independent body yet to be determined. According to the stability programme 2017, an appropriate legal act should be adopted by the parliament before the end of the current legislative term.

Outside the euro area, there is no EU legal requirement to base medium-term budgetary planning on independent macroeconomic forecast. However, the UK bases medium-term budgetary plans on macroeconomic forecasts produced by an independent forecaster (the Office for Budgetary Responsibility). In other non-euro area Member States, even though independent fiscal institutions carry out assessments of the official macroeconomic forecasts, their opinions have no institutional bearing in the budgetary process.

Graph 3.2: **General government deficit for 2018: decomposition of the gap between SCPs and Commission 2017 spring forecast (% of GDP)**
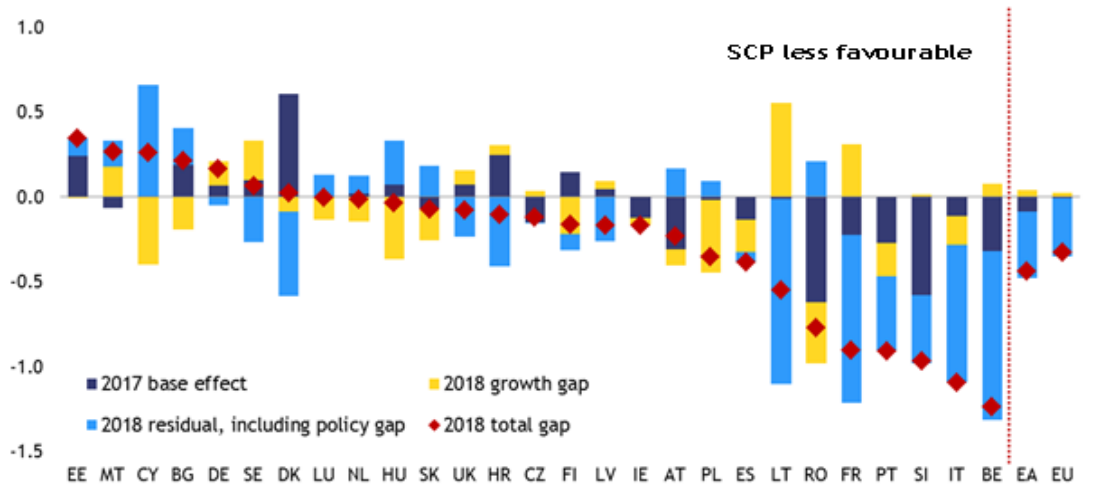
The graph shows a decomposition of the difference between the headline balance in 2018, as per the SCPs and Commission forecast into (i) base effect, (ii) difference in a standardized measure of the growth gap and (iii) a residual. The growth gap is calculated multiplying the difference in nominal growth assumptions times the standard OECD semi-elasticities. The residual includes the so-called "policy gap", i.e. the difference in the evaluation of budgetary measures. It also includes possible differences in revenue elasticities or interest payments. Values below zero imply that the component has a positive impact on the headline balance in the SCPs relative to the Commission 2017 spring forecast, while values above zero indicate that the component has a negative impact in the SCPs relative to the Commission forecast. The sum of the components is the difference between the COM headline balance forecast and the SCP headline balance forecast.
Source: European Commission 2017 spring forecast, 2017 Stability and Convergence Programmes.

3.2. THE OUTER YEARS: RISKS TO 2019 AND 2020 PLANS

First, risks to the achievement of the later years' fiscal targets can stem from the plausibility of projections at unchanged policy, and from the size of the implied fiscal measures. First, the fiscal path, even if based on realistic macroeconomic assumptions, may be unrealistic if it starts from an overly optimistic baseline at unchanged policy. Second, targets may be unachievable if their achievement implicitly requires a (too) large amount of additional discretionary measures. Thus, the evaluation of risks in the later years of the programmes also focuses on the comparison between the fiscal targets as declared by national authorities and their no-policy change projections. This subsection focuses mainly on the revenue side. The SCPs contain more information on the revenue side due to more detailed reporting requirements.([22])

The baseline assumptions on which the budgetary targets are based appear prudent on the aggregate, but may be too optimistic in the case of several Member States. On the revenue side, the euro area as a whole as well as the EU incorporate some revenue shortfalls over 2019-2020 in their unchanged policy scenario([23]), as shown in Table 3.2, column (v). Only four Member States count on substantial revenue windfalls in their unchanged policy scenario. As shown in table 5, RO and to a lesser extent ES, LT and LU stand out with an amount of revenue windfalls ranging from 0.3% to 1.1% of GDP over 2019 and 2020 together. If these windfalls were not to materialise but instead revenues react to

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([22]) The submission of no-policy change revenue projections has been agreed upon by all Member States according to the code of conduct of the Stability and Growth Pact. Conversely, the submission of no-policy change expenditure projections remains voluntary http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

([23]) The figures in this table should however be interpreted with care, as some Member States might have included the impact measures already decided in their no-policy-change revenue projections. In such a case, apparent revenue shortfalls might in fact result from tax cuts already decided while revenue windfalls might result from tax increases that have already been decided. However, this distortion is likely to be limited for the outer years of the programmes.

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growth in line with OECD standard elasticities, these Member States would need to implement substantially larger revenue measures than reported to attain their revenue targets in the later years of the programmes.

Risks stemming from the size of the required measures seem restrained on the aggregate. In fact, the comparison between euro area Member States' overall revenue targets for 2019 and 2020 and their no-policy change revenue projections show that on aggregate, no additional discretionary measures are required in either 2019 or 2020 (see Table 3.2, column (iii)). However, some Member States will need to implement substantial additional revenue measures in order to bridge the gap between their no-policy change projections and their declared revenue targets. This constitutes a source of risk to the achievement of the fiscal targets of BE, LV, MT, PT and SI. Conversely, the revenue targets of BG, EE and FI seem consistent with some revenue-decreasing measures in the later years of the programme.

Second, the envisaged fiscal adjustment relies mostly on savings in current expenditure as a share of GDP, whereas past experience shows that such savings can be difficult to achieve. As discussed in Section 2, current expenditure is envisaged to fall by around 1% of GDP over 2019 and 2020 in both the euro area and the EU. As output gaps are expected to have closed by 2018, automatic stabilisers only explain part of these savings. On aggregate, interest expenditure is not expected to fall anymore beyond 2018.

While on aggregate, interest expenditure is not expected to fall further beyond 2018, some member states still count on significant savings from lower interest expenditure in the outer years of the programme. This is the case for AT, BE, HR, HU, IE, LV, MT, NL, PT, SI, SK and UK. CY, DK, FR and IT on the other hand see their interest expenditure increase in 2019-2020. On aggregate, interest expenditure is expected to amount to just below 2% of GDP in 2020, against 2.1% of GDP in 2016. A majority of Member States assume a further decline in the implicit interest rate of the outstanding debt stock, with the biggest decrease assumed in IE, LT and RO. A comparison with the Commission's own medium term debt projections shows that interest rate assumptions of the SCP appear relatively prudent in the case of BG, CY, DK, FR, IT and MT, while being more optimistic in the case of DE, EE, FI, IE, LT, NL, SK and UK. This being said, the evolution of the implicit interest rate depends on a number of assumptions, for example regarding the future maturity structure, and therefore comparisons between projections are only indicative.

Table 3.2:   Implicit amount of revenue measures and revenue windfalls for 2019 and 2020 (% of GDP)

pp GDP	Change in revenue targets (I)		Change in 'no-policy change' revenue projections (II)		Implied annual measures (III)=(I)-(II)		Reported annual DRMs (IV)		Annual revenue windfalls (+) / shortfalls (-) implicit to the 2017 SCPs (V)	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
BE	-0.1	0.0	-0.3	-0.1	0.3	0.1	0.3	0.1	-0.3	-0.1
CY	0.0	-0.5	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	-0.5
DE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EE	-0.4	-0.3	-0.1	0.0	-0.3	-0.3	-0.2	-0.1	-0.1	0.0
IE	-0.3	0.0	-0.1	-0.1	-0.2	0.1	0.2	0.2	-0.1	-0.1
ES	0.1	0.2	0.2	0.1	-0.1	0.1	0.0	0.0	0.2	0.1
FR	-0.2	-0.7	-0.2	-0.7	0.0	0.0	-0.2	-0.6	-0.2	-0.7
IT	0.0	-0.5	0.0	-0.5	0.0	0.0	0.2	0.0	0.0	-0.5
LV	0.0	-0.2	-0.3	-0.5	0.3	0.3	0.0	0.1	-0.3	-0.5
LT	0.0	0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.4
LU	-0.2	0.4	-0.2	0.4	0.0	0.0	0.0	0.0	-0.2	0.4
MT	-0.8	-0.7	-0.8	-0.9	0.0	0.2	0.0	0.2	-0.8	-0.9
NL	0.2	-0.1	0.2	-0.1	0.0	0.0	0.2	-0.2	0.2	-0.1
AT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PT	-0.1	-0.1	-0.3	-0.3	0.1	0.2	0.0	0.0	-0.3	-0.3
SI	-0.7	-0.7	-0.7	-0.9	0.0	0.2	0.0	0.0	-0.7	-0.9
SK	-0.1	-0.6	-0.1	-0.5	0.0	-0.1	0.0	0.0	-0.1	-0.5
FI	-0.7	0.2	-0.4	0.2	-0.3	0.0	-0.2	0.0	-0.4	0.2
BG	-0.4	-0.4	-0.1	-0.2	-0.3	-0.2	0.2	0.2	-0.1	-0.2
CZ	-0.2	-0.3	-0.2	-0.3	0.0	0.0	0.1	0.0	-0.2	-0.3
DK	-0.6	0.6	-0.6	0.5	0.0	0.1	0.0	-0.1	-0.6	0.5
HR	-0.1	-0.3	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	-0.2
HU	-1.0	-2.4	-1.0	-2.4	0.0	0.0	-0.4	-0.5	-1.0	-2.4
RO	0.5	0.5	0.5	0.5	0.0	0.0	0.0	0.0	0.5	0.5
PL	-0.1	-0.6	0.0	-0.5	-0.1	-0.1	0.3	0.2	0.0	-0.5
SE	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0
UK	0.0	-0.1	0.0	-0.1	0.1	0.0	0.1	0.1	0.0	-0.1
EU	-0.1	-0.2	-0.1	-0.2	0.0	0.0	0.0	-0.1	0.0	-0.2
EA	-0.1	-0.2	-0.1	-0.2	0.0	0.0	0.0	-0.1	0.0	-0.2

Windfalls/shortfalls in column (v) are calculated by comparing the no policy change revenue projections with a simplified calculation based on standard semi-elasticities. The later starts from the 2018 revenue projections in the SCPs, net of one-offs, and projects future revenue developments based on the SCP forecast for growth, the output gap and OECD standard semi-elasticities.
Source: 2017 Stability and Convergence Programmes.

4. SUSTAINABILITY

The sustainability of public finances across Member States, against the background of revised macroeconomic scenario, fiscal outlook, fiscal plans and the demographic ageing is analysed in this section. The analysis presented here takes therefore as a point of departure the latest Commission 2017 spring forecast and the 2017 Stability and Convergence Programmes. The long-term budgetary projections released with the 2015 Ageing Report have been incorporated in the simulations.[24]

4.1. MEDIUM- TO LONG-TERM FISCAL SUSTAINABILITY: GOVERNMENT DEBT PROJECTIONS

Turning to medium- and longer-term implications for fiscal sustainability, taking account of the projected changes in age-related expenditure, the macroeconomic scenario and the fiscal outlook and plans, two main scenarios are considered:

- the "COM no-policy-change" scenario, with structural primary balance/GDP ratio kept constant at 2018 estimated level as in the Commission 2017 spring forecast (reflecting a "no-policy-change" assumption);

- the "SCP" scenario reflecting planned changes in fiscal policies as reported in the SCPs. (fully in line with SCPs until the end of the programme horizon. Beyond, structural primary balance as share of GDP is kept constant)

Graph 4.1 shows the projected evolution for the government gross debt ratio (including the projected change in age-related expenditure), for the EU as a whole. The solid thick line shows the outcome for this scenario under the assumption of no fiscal consolidation measures beyond those contained in the Commission 2017 spring forecast (structural primary balance/GDP ratio kept constant at estimated 2018 level) and incorporates expected future age-related spending, as projected in the 2015 Ageing Report.[25]

Public debt is expected to decrease until 2018 and beyond. According to the Commission 2017 spring forecast, debt will continue to decrease and reach 83.6% of GDP in 2018 in the EU as a whole. Given the sustained fiscal surplus until 2018 and the still negative snow-ball effects until the mid-2020s, debt is projected to continue to decline in the following years. Moreover, the cost of ageing as a share of GDP is projected to rise only slowly in the years to the mid-2020s. Under the assumption of a prolonged period of low interest rates ("low for long scenario"), debt would decrease more substantially to reach less than 75% of GDP in 2027 (-5 pps. of GDP difference with the Commission no-policy change scenario).[26]

The debt path for the EU under the 'SCP' scenario lies well below the path obtained based on the "COM no-policy-change" scenario (a difference of around 12 pps. of GDP between debt ratios in 2027). Indeed, the "SCP" scenario would lead to a more marked reduction in the debt-to-GDP ratio with debt falling to 67.3% of GDP by 2027.

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[24] European Commission (DG ECFIN) and Economic Policy Committee (AWG) (2015), *"The 2015 Ageing Report: Economic and budgetary projections for the 28 EU Member States (2013-2060)"*, European Economy, No 3|2015. The impact of the pension reforms in Belgium and Bulgaria since the release of the 2015 Ageing Report are incorporated in the analysis.

[25] This consists of projections of pension, health care, long-term care, education and unemployment benefit spending. In addition the projected changes in property income and in taxes on pensions are incorporated.

[26] For more details about this scenario, see European Commission (2017), "Debt Sustainability Monitor 2016", European Economy, Institutional papers, No 47, EC, Brussels.

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Box 4.1: The Commission approach to assess fiscal sustainability

The Commission uses a multidimensional approach to assessing fiscal sustainability. It integrates the longer term with an assessment of more immediate challenges and risks, underpinned with appropriate indicators which can point to the scale and the scope of the sustainability challenges. This multidimensional approach enables assessing:

- *Short-term fiscal challenges*, through a combination of fiscal, financial and competitiveness indicators aiming at an *"early detection of fiscal stress"*. The S0 indicator is an "early-detection indicator", designed to highlight shorter-term (one-year horizon) risks for fiscal stress stemming from the fiscal as well as the financial and competitiveness sides of the economy. A whole set of fiscal and financial-competitiveness variables are used in the composite indicator S0. No country is currently found to face short-risks of fiscal stress; therefore, the rest of the analysis in this section focuses on medium- and long-term fiscal challenges.[1]

- *Medium-term fiscal challenges*, by looking at the risks to fiscal sustainability over the medium run, based on debt sustainability analysis (DSA) and the S1 sustainability indicator, in line with the Debt Sustainability Monitor 2016.[2] The S1 indicator shows the fiscal gap related to the excess of projected government expenditure, including projected age-related expenditure, over projected revenue together with any gap with respect to the steady adjustment in the structural primary balance over the five years after the period covered by the forecast, to bring the debt-to-GDP ratio to 60% of GDP by 2031.

- *Long-term fiscal challenges*, through the S2 indicator, which shows the fiscal gap related to the excess of projected government expenditure, including projected age-related expenditure over projected revenue together with any gap with respect to the primary balance needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path over an infinite horizon.

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[1] The methodology for the S0 indicator is fundamentally different from the S1 and S2 indicators, which quantify the required fiscal adjustment, the "fiscal gap". S0 does not assess "fiscal gaps" but is a composite indicator estimating risks of "fiscal stress" in the short term, using risk thresholds (based on the observation of past episodes of "fiscal stress" for relevant variables and their combinations).

[2] For details about the sustainability risk classification and the methodology behind the Debt Sustainability Analysis (DSA), see also European Commission (2016), "Fiscal Sustainability Report 2015", European Economy, Institutional papers, No 18, EC, Brussels.

Graph 4.1:   Medium term debt projections for the EU
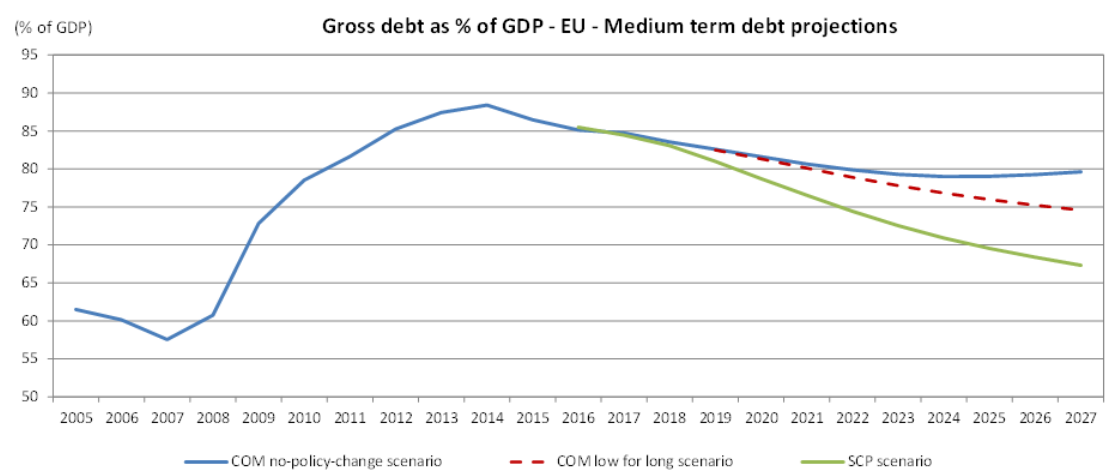
The medium-term projections are based on the Commission services' Spring 2017 forecast (up to 2018) and on the 2017 Stability and Convergence Programmes and the updated t+10 projections and the projections in the 2015 Ageing Report. The output gap is assumed to close in t+5. The inflation rate (GDP deflator) converges linearly to 2% in t+5, when the output gap is closed and remains constant thereafter, for all countries. The long-term interest rate on new and rolled over debt is assumed to converge to 5% (in nominal terms) by the end of the 10-year projection horizon, based on the AWG-EPC agreed assumption, while the short-term interest rate on new and rolled over debt converges to an end of projection value that is consistent with the 5% long-term interest rate and the value of the historical (pre-crisis) euro area yield curve (0.83). In the Commission "low for long scenario", the convergence of interest rates to their equilibrium values is assumed to take longer (a 20-year window). The structural primary balance is kept unchanged after either the end forecast or the end programme year, apart from the projected change in age-related expenditure according to the AWG reference scenario from the 2015 Ageing Report. The primary balance is adjusted by using the budget sensitivities in the period until the output gap is assumed to be closed in t+5. No stock-flow adjustment assumed after the end of forecast or programme horizon.
Source: Commission services, 2017 Stability and Convergence Programmes.

4.2.   MEDIUM-TERM FISCAL SUSTAINABILITY CHALLENGES

Developments in the Commission no-policy-change scenario

The adjustment needed in the medium-to-long term with respect to unchanged policies is calculated as the additional fiscal adjustment required up to five years ahead,[27] **in order to reach a debt-to-GDP ratio at 60% by 2031**, (see Graph 4.2). The improvement relative to the "COM no-policy-change" scenario required in the structural primary balance to achieve a debt-to-GDP ratio target of 60% by 2031 amounts to 2.1 pps. of GDP over the period 2018–2023 in the EU as a whole, i.e., an average annual fiscal consolidation effort of just below 0.5 pp. per year. In other words, the structural primary balance in the EU has to improve from a forecasted surplus of 0.4% of GDP in 2018 (structural balance of -1.5% in 2018) to a surplus of 2.5% in 2023. However, if the fiscal plans in the 2012 SCPs are fully implemented and the structural fiscal position is maintained also after the period covered by the programmes, this would almost be sufficient to reach a debt ratio of 60% of GDP in 2030.

According to the S1 indicator, 6 countries face high risk, 9 countries face medium risk and 12 countries face low risk over the medium-term. For the majority of Member States, the overall medium-term risk classification coincides with classification based on the S1 indicator. However, for some (IE,

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[27] Base year *t* being either the end of the forecast horizon (2018) or the end of the Stability and Convergence Programme horizon (country specific, with values between 2020 and 2021), depending on the scenario considered.

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HR, HU, PL, SI and FI) it becomes one step higher, thanks to the debt sustainability analysis pointing to additional risks.([28])

Developments assuming implementation of the fiscal plans in the SCPs

If the fiscal plans in the SCPs are fully implemented and additionally not weakened after the end of the programme horizon, the fiscal gap would be reduced to more than one third of the gap (0.5% of GDP instead of 2.1%) in the no-policy-change scenario. Consequently, risks would be reduced and according to the S1 indicator, 2 countries would face high risk, 7 countries would face medium risk and 18 countries would face low risk.

Graph 4.2: **S1 indicator (fiscal adjustment required to reach a 60% public debt/GDP ratio by 2031, in pps. of GDP)**
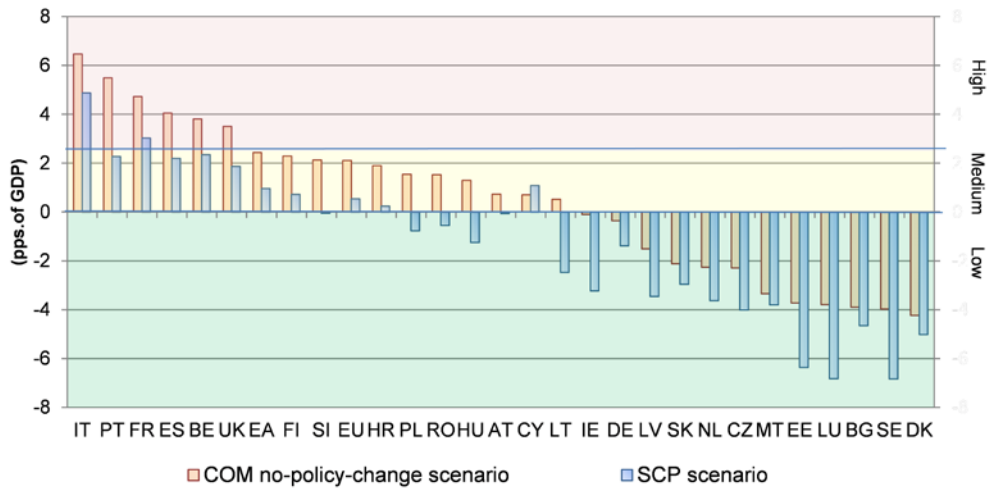
Source: Commission services, 2017 Stability and Convergence Programmes.

4.3. LONG-TERM FISCAL CHALLENGES

Developments in the Commission no-policy-change scenario

In the long term, the sustainability of the fiscal position is assessed by the gap relative to the primary balance required to stabilize debt at the current level and cover all the future changes in age-related expenditures. Graph 4.3 shows the S2 sustainability indicator according to the "COM no-policy-change" scenario. It shows the initial budgetary position (IBP) on the horizontal axis and the long-term change in the fiscal position due to cost of ageing (CoA) on the vertical axis. A position to the left has a favourable IBP; if it is below zero, it means that the budgetary position contributes positively to fiscal sustainability. A position towards the bottom of the axis has a low long-term "cost of ageing". For a large number of countries (13 Member States) both the CoA and the IBP components contribute to the fiscal gap. Finally, the diagonal lines indicate the size of the sustainability gap. Among the Member States, 1 country face high risk, 14 countries face medium risk and 12 countries face low risk over the long-term. Overall, the EU a whole has a sustainability gap of 1.7 pps. of GDP. The cost of ageing (CoA) contributes with 1.1 pps. of GDP to the gap, and the initial budgetary position (IBP) by 0.6 pps. of GDP.

([28]) For details about the sustainability risk classification and the methodology behind the Debt Sustainability Analysis (DSA), see European Commission (2016), "Fiscal Sustainability Report 2015", European Economy, Institutional papers, No 18, EC, Brussels.

Graph 4.3: **The S2 sustainability gap decomposed**
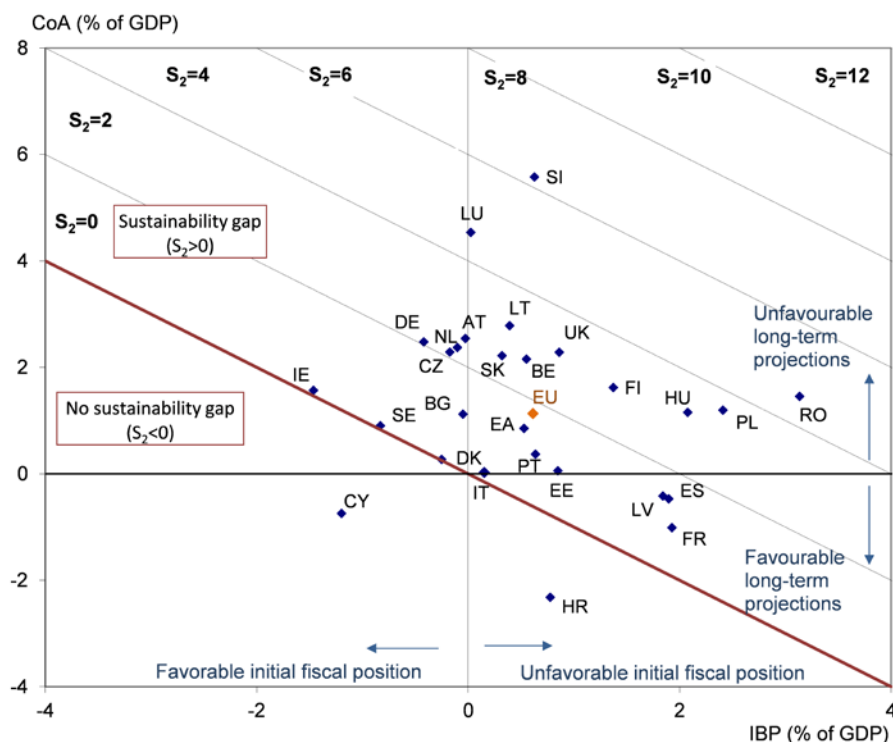
Source: Commission services.

Developments assuming implementation of the fiscal plans in the SCPs

Even assuming the full implementation of the fiscal plans in the SCPs, 9 Member States would still face sustainability gaps. Graph 4.4 shows the S2 indicator with two different starting points: (i) the "COM no-policy-change" scenario and (ii) the "SCP" scenario. The "SCP" scenario shows the extent to which the implementation of the fiscal consolidation plans would contribute to ensuring fiscal sustainability. Under the assumption that the fiscal plans in the programmes are fully implemented, nearly all Member States are expected to have a lower sustainability gap (as shown by a position below the 45° degrees line in the graph). In the EU as a whole, the S2 fiscal gap would be 0.4% of GDP, i.e. less than one third of the gap in the no-policy-change scenario. Even assuming the full implementation of the fiscal plans in the SCPs, 9 Member States would still have sustainability gaps of at least 2% of GDP (LU, HU, MT, NL, AT, PL, RO, SI and SK). In terms of risk classification, in the "SCP" scenario, seven Member States would go to a lower risk category (BE, CZ, DE, LT, FI and the UK from "medium" to "low" risk and SI from "high" to "medium" risk).

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Graph 4.4:   The S2 sustainability gap: "COM no-policy-change" and "SCP" scenarios
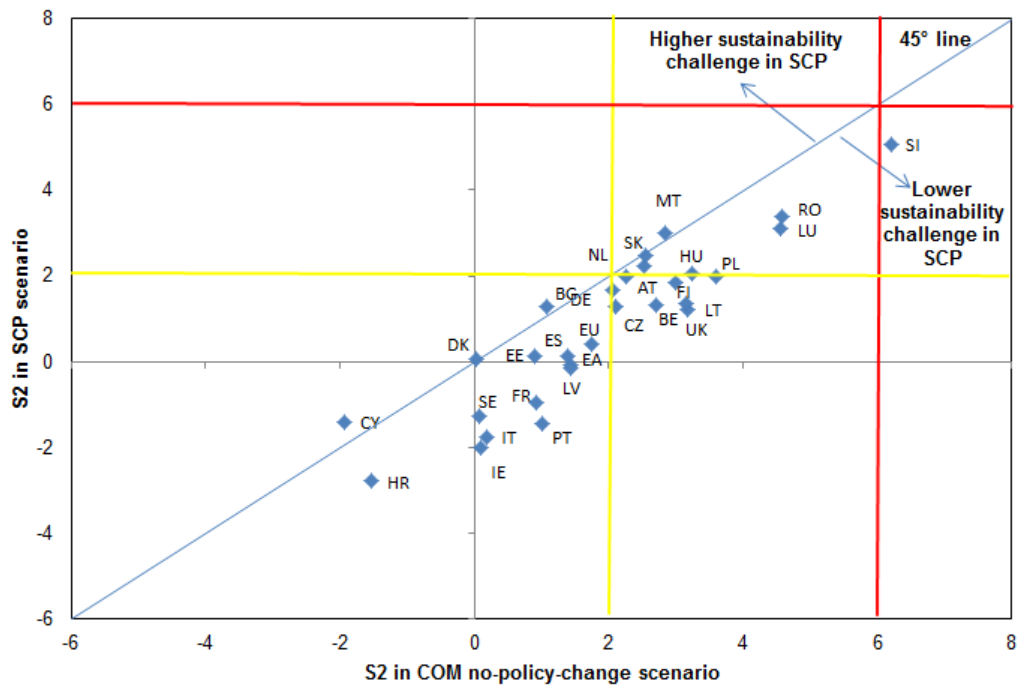
Source: Commission services, 2017 Stability and Convergence Programmes.

Table 4.1: **Risk classification in the 2017 assessment round, COM "no-policy-change" scenario**

	S0 Overall SHORT-TERM risk category	Debt sustainability analysis - overall risk assessment	S1 indicator - overall risk assessment	Overall MEDIUM-TERM risk category	S2 Overall LONG-TERM risk category
BE	LOW (0.3)	HIGH	HIGH (3.8)	HIGH	MEDIUM (2.7)
BG	LOW (0.3)	LOW	LOW (-3.9)	LOW	LOW (1.1)
CZ	LOW (0.2)	LOW	LOW (-2.3)	LOW	MEDIUM (2.1)
DK	LOW (0.3)	LOW	LOW (-4.2)	LOW	LOW (0)
DE	LOW (0.1)	LOW	LOW (-0.4)	LOW	MEDIUM (2.1)
EE	LOW (0.2)	LOW	LOW (-3.7)	LOW	LOW (0.9)
IE	LOW (0.3)	MEDIUM	LOW (-0.1)	MEDIUM	LOW (0.1)
ES	LOW (0.4)	HIGH	HIGH (4)	HIGH	LOW (1.4)
FR	LOW (0.2)	HIGH	HIGH (4.7)	HIGH	LOW (0.9)
HR	LOW (0.2)	HIGH	MEDIUM (1.9)	HIGH	LOW (-1.5)
IT	LOW (0.4)	HIGH	HIGH (6.5)	HIGH	LOW (0.2)
CY	LOW (0.4)	MEDIUM	MEDIUM (0.7)	MEDIUM	LOW (-1.9)
LV	LOW (0.2)	LOW	LOW (-1.5)	LOW	LOW (1.4)
LT	LOW (0.2)	LOW	MEDIUM (0.5)	MEDIUM	MEDIUM (3.2)
LU	LOW (0.3)	LOW	LOW (-3.8)	LOW	MEDIUM (4.6)
HU	LOW (0.3)	HIGH	MEDIUM (1.3)	HIGH	MEDIUM (3.2)
MT	LOW (0.1)	LOW	LOW (-3.3)	LOW	MEDIUM (2.8)
NL	LOW (0.2)	LOW	LOW (-2.3)	LOW	MEDIUM (2.3)
AT	LOW (0.1)	MEDIUM	MEDIUM (0.7)	MEDIUM	MEDIUM (2.5)
PL	LOW (0.3)	HIGH	MEDIUM (1.5)	HIGH	MEDIUM (3.6)
PT	LOW (0.4)	HIGH	HIGH (5.5)	HIGH	LOW (1)
RO	LOW (0.2)	MEDIUM	MEDIUM (1.5)	MEDIUM	MEDIUM (4.6)
SI	LOW (0.1)	HIGH	MEDIUM (2.1)	HIGH	HIGH (6.2)
SK	LOW (0.3)	LOW	LOW (-2.1)	LOW	MEDIUM (2.5)
FI	LOW (0.1)	HIGH	MEDIUM (2.3)	HIGH	MEDIUM (3)
SE	LOW (0.1)	LOW	LOW (-4)	LOW	LOW (0.1)
UK	LOW (0.4)	HIGH	HIGH (3.5)	HIGH	MEDIUM (3.1)
EU	:	:	(2.1)	:	(1.7)
EA	:	:	(2.4)	:	(1.4)

S0 indicator: The critical threshold for the overall S0 indicator is 0.46.

The S1 indicator: The following thresholds for the S1 indicator were used:
• if the S1 value is less than zero, the country is assigned low risk.
• if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year for five years after the last year covered is required (indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk.
• if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.

The Debt Sustainability Analysis (DSA): a range of factors (such as debt levels, alternative underlying assumptions, stochastic projections) are used for the risk classification. For details about the sustainability risk classification and the methodology behind the Debt Sustainability Analysis (DSA), see European Commission (2016), 'Fiscal Sustainability Report 2015', European Economy, Institutional papers, No 18, EC, Brussels.

The S2 indicator: The following thresholds for the S2 indicator were used:
• if the value of S2 is lower than 2, the country is assigned low risk.
• if it is between 2 and 6, it is assigned medium risk.
• if it is greater than 6, it is assigned high risk.

Source: Commission services.

ANNEX 1

Table A1.1:   General government total debt (% of GDP)

	2017: updates of the stability and convergence programmes						Commission services'spring 2017 forecast				Difference compared to forecast (red is higher in programme)		
	2016	2017	2018	2019	2020	2021	2015	2016	2017	2018	2016	2017	2018
BE	105,9	105,2	103,4	101,3	99,1	n.a.	106,0	105,9	105,6	105,1	0,0	-0,4	-1,7
CY	107,8	104,0	99,7	94,6	88,8	n.a.	107,5	107,8	103,4	99,8	0,0	0,6	-0,1
DE	68 1/4	66 1/4	64	61 3/4	59 3/4	57	71,2	68,3	65,8	63,3	0,0	0,4	0,7
EE	9,5	9,4	9,9	10,5	10,1	9,4	10,1	9,5	9,5	9,6	0,0	-0,1	0,3
IE	75,4	72,9	71,2	69,5	65,2	62,9	78,7	75,4	73,5	72,7	0,0	-0,6	-1,5
ES	99,4	98,8	97,6	95,4	92,5	n.a.	99,8	99,4	99,2	98,5	0,0	-0,3	-0,9
FR	96,0	96,0	95,9	94,7	93,1	n.a.	95,6	96,0	96,4	96,7	0,0	-0,4	-0,8
IT	132,6	132,5	131,0	128,2	125,7	n.a.	132,1	132,6	133,1	132,5	0,0	-0,6	-1,5
LV	40,1	39,2	38,2	39,4	40,4	n.a.	36,5	40,1	38,5	36,0	0,0	0,7	2,2
LT	40,2	42,4	38,4	39,1	33,8	n.a.	42,7	40,2	42,4	38,9	0,0	0,0	-0,5
LU	20,0	22,2	22,4	22,6	22,8	22,6	21,6	20,0	22,0	22,3	0,0	0,2	0,2
MT	58,3	55,9	52,5	50,0	47,6	n.a.	60,6	58,3	55,8	52,5	0,0	0,1	0,0
NL	62,3	58,5	55,5	52,2	49,3	n.a.	65,2	62,3	59,8	57,2	0,0	-1,3	-1,7
AT	84,6	80,8	78,5	76,0	73,5	71,0	85,5	84,6	82,8	81,2	0,0	-2,0	-2,7
PT	130,4	127,9	124,2	120,0	117,6	109,4	129,0	130,4	128,5	126,2	0,0	-0,6	-2,0
SI	79,7	77,0	74,3	70,9	67,5	n.a.	83,1	79,7	77,8	75,5	0,0	-0,8	-1,2
SK	51,9	51,8	49,9	48,0	46,0	n.a.	52,5	51,9	51,5	49,8	0,0	0,2	0,2
FI	63,6	64,7	64,5	63,8	62,7	n.a.	63,7	63,6	65,5	66,2	0,0	-0,8	-1,7
EA	89,8	88,6	87,0	84,8	82,5	60,3	91,0	89,8	88,8	87,6	0,0	-0,2	-0,6
BG	29,5	26,4	25,6	25,1	23,8	n.a.	26,0	29,5	26,8	26,0	0,0	-0,4	-0,4
CZ	37,2	36,0	35,3	34,3	32,7	n.a.	40,3	37,2	36,2	35,6	0,0	-0,2	-0,3
DK	37,8	37,0	36,3	35,8	33,9	n.a.	39,6	37,8	36,7	36,0	0,0	0,3	0,3
HR	84,2	81,2	78,4	75,4	72,1	n.a.	86,7	84,2	81,9	79,4	0,0	-0,6	-1,0
HU	74,1	72,0	70,5	67,3	64,0	61,2	74,7	74,1	72,6	71,2	0,0	-0,6	-0,7
RO	37,6	38,0	38,3	38,1	37,6	n.a.	38,0	37,6	39,3	40,9	0,0	-1,3	-2,6
PL	54,4	55,3	54,8	54,0	52,1	n.a.	51,1	54,4	54,6	55,4	0,0	0,7	-0,6
SE	41,6	39,5	37,3	34,7	31,4	n.a.	43,9	41,6	39,1	37,0	0,0	0,4	0,3
UK	87,5	87,7	87,7	86,5	84,8	83,6	87,6	88,0	87,1	86,1	-0,5	0,6	1,6
EU	84,4	83,4	82,0	80,1	77,9	69,6	85,3	84,5	83,4	82,2	-0,1	0,0	-0,1

In case of missing programmes: weighted average of the figures for those countries that have submitted a programme.
Commission EU averages are based on UK Fiscal year data.
Source: 2017 Stability and Convergence Programmes, European Commission 2017 spring forecast.

Table A1.2:   General government balance (% of GDP)

	2017: updates of the stability and convergence programmes						Commission services'spring 2017 forecast				Difference compared to forecast (red is higher in programme)		
	2016	2017	2018	2019	2020	2021	2015	2016	2017	2018	2016	2017	2018
BE	-2,6	-1,6	-0,7	-0,2	-0,1	n.a.	-2,5	-2,6	-1,9	-2,0	0,0	0,3	1,2
CY	0,4	0,2	0,4	0,4	0,4	n.a.	-1,2	0,4	0,2	0,7	0,0	0,0	-0,3
DE	3/4	2/4	1/4	1/4	2/4	2/4	0,7	0,8	0,5	0,3	0,0	-0,1	-0,2
EE	0,3	-0,5	-0,8	-0,7	-0,3	0,1	0,1	0,3	-0,3	-0,5	0,0	-0,2	-0,3
IE	-0,6	-0,4	-0,1	0,1	0,6	1,0	-2,0	-0,6	-0,5	-0,3	0,0	0,1	0,2
ES	-4,5	-3,1	-2,2	-1,3	-0,5	n.a.	-5,1	-4,5	-3,2	-2,6	0,0	0,1	0,4
FR	-3,4	-2,8	-2,3	-1,6	-1,3	n.a.	-3,6	-3,4	-3,0	-3,2	0,0	0,2	0,9
IT	-2,4	-2,1	-1,2	-0,2	0,0	n.a.	-2,7	-2,4	-2,2	-2,3	0,0	0,1	1,1
LV	0,0	-0,8	-1,6	-1,2	-0,5	n.a.	-1,3	0,0	-0,8	-1,8	0,0	0,0	0,2
LT	0,3	-0,4	0,4	0,4	1,3	n.a.	-0,2	0,3	-0,4	-0,2	0,0	0,0	0,5
LU	1,6	0,2	0,3	0,5	0,9	1,2	1,4	1,6	0,2	0,3	0,0	0,0	0,0
MT	1,0	0,5	0,5	0,5	0,5	n.a.	-1,3	1,0	0,5	0,8	0,0	0,1	-0,3
NL	0,4	0,5	0,8	1,1	1,3	n.a.	-2,1	0,4	0,5	0,8	0,0	0,0	0,0
AT	-1,6	-1,0	-0,8	-0,5	-0,4	-0,3	-1,1	-1,6	-1,3	-1,0	0,0	0,3	0,2
PT	-2,0	-1,5	-1,0	-0,3	0,4	1,3	-4,4	-2,0	-1,8	-1,9	0,0	0,3	0,9
SI	-1,8	-0,8	-0,2	0,2	0,4	n.a.	-2,9	-1,8	-1,4	-1,2	0,0	0,6	1,0
SK	-1,7	-1,2	-0,5	0,0	0,0	n.a.	-2,7	-1,7	-1,3	-0,6	0,0	0,1	0,1
FI	-1,9	-2,3	-1,6	-0,8	-0,2	n.a.	-2,7	-1,9	-2,2	-1,8	0,0	-0,1	0,2
EA	-1,6	-1,3	-0,9	-0,4	-0,1	0,4	-2,0	-1,6	-1,4	-1,4	0,0	0,1	0,4
BG	0,0	-0,6	-0,5	0,1	0,1	n.a.	-1,6	0,0	-0,4	-0,3	0,0	-0,2	-0,2
CZ	0,6	0,4	0,3	0,5	0,5	n.a.	-0,6	0,6	0,3	0,1	0,0	0,2	0,1
DK	-0,9	-0,9	-0,9	-1,2	0,0	n.a.	-1,3	-0,9	-1,3	-0,9	0,0	-0,6	0,0
HR	-0,8	-1,3	-0,8	-0,3	0,5	n.a.	-3,4	-0,8	-1,1	-0,9	0,0	-0,2	0,1
HU	-1,8	-2,4	-2,4	-1,8	-1,5	-1,2	-1,6	-1,8	-2,3	-2,4	0,0	-0,1	0,0
RO	-3,0	-2,9	-2,9	-2,5	-2,0	n.a.	-0,8	-3,0	-3,5	-3,7	0,0	0,6	0,8
PL	-2,4	-2,9	-2,5	-2,0	-1,2	n.a.	-2,6	-2,4	-2,9	-2,9	0,0	0,0	0,4
SE	0,9	0,3	0,6	1,4	2,1	n.a.	0,3	0,9	0,4	0,7	0,0	-0,1	-0,1
UK	-2,7	-2,8	-1,9	-1,1	-0,9	-0,9	-4,0	-2,7	-2,8	-2,0	0,0	-0,1	0,1
EU	-1,7	-1,6	-1,1	-0,6	-0,2	-0,1	-2,3	-1,7	-1,6	-1,4	0,0	0,0	0,3

In case of missing programmes: weighted average of the figures for those countries that have submitted a programme.
Commission EU averages are based on UK Fiscal year data.
Source: 2017 Stability and Convergence Programmes, European Commission 2017 spring forecast.

Table A1.3: **General government total revenue (% of GDP)**

	2017: updates of the stability and convergence programmes						Commission services'spring 2017 forecast				Difference compared to forecast (red is higher in programme)		
	2016	2017	2018	2019	2020	2021	2015	2016	2017	2018	2016	2017	2018
BE	50,7	50,9	50,6	50,5	50,5	n.a.	51,4	53,3	52,7	52,1	-2,6	-1,8	-1,5
CY	39,2	38,6	38,4	38,4	37,9	n.a.	39,2	38,9	37,9	37,5	0,3	0,7	0,9
DE	45	45 1/4	45 1/4	45 1/4	45 1/4	45 1/4	44,7	44,3	44,6	44,7	0,8	0,6	0,4
EE	40,7	40,8	41,2	40,8	40,5	39,9	40,5	40,4	41,1	42,0	0,3	-0,3	-0,8
IE	27,5	26,8	26,5	26,2	26,2	26,1	27,6	28,0	27,4	26,8	-0,5	-0,6	-0,3
ES	37,9	38,3	38,4	38,6	38,7	n.a.	38,6	42,4	41,5	40,9	-4,5	-3,1	-2,5
FR	52,8	52,9	53,0	52,8	52,1	n.a.	53,1	56,2	56,0	55,9	-3,4	-3,1	-2,9
IT	47,1	46,8	47,0	47,0	46,5	n.a.	47,8	49,6	49,5	49,2	-2,5	-2,7	-2,2
LV	36,1	36,8	36,2	36,2	36,0	n.a.	35,8	36,3	37,3	37,5	-0,2	-0,5	-1,3
LT	34,5	36,0	36,4	36,3	36,7	n.a.	34,9	34,2	34,3	34,0	0,3	1,6	2,4
LU	42,7	41,3	40,5	40,3	40,8	41,3	42,7	41,2	40,9	40,2	1,6	0,4	0,3
MT	39,1	38,5	38,3	37,5	36,8	n.a.	39,9	38,1	37,9	37,3	1,0	0,6	1,0
NL	44,0	44,3	44,2	44,4	44,3	n.a.	43,2	43,6	43,9	43,4	0,4	0,4	0,8
AT	49,5	49,5	49,4	49,4	49,4	49,3	50,6	51,1	50,7	50,4	-1,6	-1,2	-1,0
PT	43,1	43,3	43,0	42,9	42,8	42,9	44,0	45,1	45,0	44,6	-2,0	-1,7	-1,6
SI	43,6	43,5	43,7	43,0	42,3	n.a.	45,2	45,5	44,8	44,0	-1,9	-1,3	-0,3
SK	40,0	39,7	38,7	38,6	38,0	n.a.	42,8	41,6	41,6	41,3	-1,7	-1,9	-2,6
FI	54,2	52,9	52,3	51,6	51,8	n.a.	54,2	56,1	55,5	54,6	-1,9	-2,6	-2,3
EA	46,1	46,2	46,1	46,0	45,8	44,0	46,3	47,7	47,6	47,3	1,6	-1,4	-1,2
BG	35,5	35,5	36,1	35,7	35,3	n.a.	39,0	35,5	36,8	36,9	0,0	-1,3	-0,8
CZ	40,5	40,6	40,6	40,4	40,1	n.a.	41,4	39,9	40,2	40,5	0,6	0,4	0,1
DK	51,7	49,8	49,9	49,4	50,0	n.a.	53,5	53,6	53,3	52,3	-2,0	-3,4	-2,3
HR	47,6	47,3	47,6	47,5	47,2	n.a.	45,2	48,4	48,6	48,4	-0,8	-1,4	-0,8
HU	45,6	45,5	45,3	44,3	41,9	40,2	48,5	47,5	47,9	47,8	-1,9	-2,4	-2,5
RO	31,7	32,2	32,3	32,8	33,3	n.a.	35,0	34,7	34,1	35,2	-3,0	-1,9	-2,9
PL	38,9	42,4	40,8	40,7	40,1	n.a.	39,0	41,3	42,0	42,1	-2,4	0,4	-1,3
SE	50,3	49,9	49,9	50,0	50,0	n.a.	50,5	50,0	50,0	49,4	0,3	-0,1	0,5
UK	36,4	36,4	36,8	36,8	36,7	36,5	38,3	38,8	38,4	38,6	-2,4	-2,0	-1,8
EU	44,1	44,2	44,2	44,1	43,9	40,9	44,8	46,0	45,8	45,7	-1,8	-1,6	-1,5

In case of missing programmes: weighted average of the figures for those countries that have submitted a programme. Commission EU averages are based on UK Fiscal year data.
Source: 2017 Stability and Convergence Programmes, European Commission 2017 spring forecast.

Table A1.4: **General government total expenditure (% of GDP)**

	2017: updates of the stability and convergence programmes						Commission services'spring 2017 forecast				Difference compared to forecast (red is higher in programme)		
	2016	2017	2018	2019	2020	2021	2015	2016	2017	2018	2016	2017	2018
BE	53,3	52,5	51,3	50,7	50,6	n.a.	53,9	53,3	52,7	52,1	0,0	-0,2	-0,8
CY	38,9	38,4	38,0	38,0	37,4	n.a.	40,4	38,9	37,9	37,5	0,0	0,5	0,5
DE	44 1/4	44 3/4	45	45	44 3/4	44 3/4	44,0	44,3	44,6	44,7	0,0	0,2	0,3
EE	40,4	41,4	42,0	41,4	40,8	39,8	40,4	40,4	41,1	42,0	0,0	0,3	0,0
IE	28,0	27,2	26,6	26,1	25,6	25,1	29,5	28,0	27,4	26,8	0,0	-0,2	-0,2
ES	42,4	41,5	40,6	39,9	39,2	n.a.	43,8	42,4	41,5	40,9	0,0	0,0	-0,3
FR	56,2	55,7	55,3	54,4	53,5	n.a.	56,7	56,2	56,0	55,9	0,0	-0,3	-0,6
IT	49,6	49,1	48,3	47,6	47,0	n.a.	50,5	49,6	49,5	49,2	0,0	-0,4	-0,9
LV	36,1	37,6	37,8	37,5	36,6	n.a.	37,0	36,3	37,3	37,5	-0,2	0,3	0,3
LT	34,2	36,3	36,0	36,0	35,4	n.a.	35,1	34,2	34,3	34,0	0,0	2,0	2,0
LU	41,2	41,1	40,2	39,8	39,9	40,1	41,3	41,2	40,9	40,2	0,0	0,2	0,1
MT	38,1	38,0	37,7	37,0	36,3	n.a.	41,2	38,1	37,9	37,3	0,0	0,1	0,4
NL	43,6	43,9	43,4	43,3	43,0	n.a.	45,3	43,6	43,9	43,4	0,0	0,0	0,0
AT	51,1	50,6	50,3	49,9	49,8	49,7	51,7	51,1	50,7	50,4	0,0	-0,1	-0,1
PT	45,1	44,8	44,0	43,2	42,4	41,7	48,3	45,1	45,0	44,6	0,0	-0,2	-0,6
SI	45,5	44,4	43,9	42,8	41,8	n.a.	48,1	45,5	44,8	44,0	0,0	-0,4	-0,1
SK	41,6	40,9	39,2	38,6	38,0	n.a.	45,6	41,6	41,6	41,3	0,0	-0,6	-2,1
FI	56,1	55,2	53,9	52,5	52,1	n.a.	57,0	56,1	55,5	54,6	0,0	-0,3	-0,7
EA	47,7	47,5	47,0	46,5	46,0	43,6	48,4	47,7	47,6	47,3	0,0	-0,1	-0,3
BG	35,5	36,1	36,6	35,5	35,1	n.a.	40,7	35,5	36,8	36,9	0,0	-0,7	-0,3
CZ	39,9	40,2	40,3	39,9	39,6	n.a.	42,1	39,9	40,2	40,5	0,0	-0,1	-0,1
DK	52,6	51,7	50,9	50,6	50,0	n.a.	54,8	53,6	53,3	52,3	-1,1	-1,6	-1,4
HR	48,4	48,6	48,4	47,8	46,8	n.a.	48,6	48,4	48,6	48,4	0,0	0,0	0,0
HU	47,5	47,9	47,7	46,1	43,4	41,3	50,0	47,5	47,9	47,8	0,0	0,0	-0,1
RO	34,7	35,1	35,2	35,4	35,3	n.a.	35,8	34,7	34,1	35,2	0,0	1,0	0,0
PL	41,3	45,3	43,4	42,7	41,3	n.a.	41,6	41,3	42,0	42,1	0,0	3,3	1,3
SE	49,4	49,6	49,3	48,6	47,9	n.a.	50,2	50,0	50,0	49,4	-0,6	-0,4	-0,1
UK	39,1	39,3	38,7	37,9	37,6	37,4	42,7	41,8	41,5	40,9	-2,8	-2,2	-2,2
EU	45,8	45,8	45,3	44,7	44,2	41,0	47,1	46,5	46,3	46,0	-0,6	-0,5	-0,7

In case of missing programmes: weighted average of the figures for those countries that have submitted a programme. Commission EU averages are based on UK Fiscal year data.
Source: 2017 Stability and Convergence Programmes, European Commission 2017 spring forecast.

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Table A1.5:   **Structural balance (% of GDP)**

	2017: updates of the stability and convergence programmes						Commission services'spring 2017 forecast				Difference compared to forecast (red is higher in programme)		
	2016	2017	2018	2019	2020	2021	2015	2016	2017	2018	2016	2017	2018
BE	-2,3	-1,3	-0,7	-0,3	-0,2	n.a.	-2,3	-2,2	-1,6	-2,0	-0,1	0,3	1,3
CY	1,0	0,0	-0,3	-0,6	-0,8	0,0	1,4	0,9	-0,2	-0,4	0,1	0,2	0,1
DE	0,7	0,5	0,2	0,2	0,4	0,4	0,8	0,8	0,6	0,3	-0,1	0,0	0,0
EE	0,3	-0,1	-0,9	-0,8	-0,5	0,0	-0,1	0,2	-0,3	-0,7	0,1	0,2	-0,1
IE	-1,4	-1,1	-0,5	0,1	0,8	1,6	-2,0	-1,7	-1,1	-0,3	0,3	0,0	-0,2
ES	-3,6	-2,7	-2,5	-2,3	-1,9	n.a.	-2,5	-3,5	-3,4	-3,4	0,0	0,7	0,9
FR	-2,5	-2,1	-1,7	-1,3	-1,2	n.a.	-2,7	-2,5	-2,3	-2,8	0,0	0,3	1,1
IT	-1,7	-2,0	-1,2	-0,3	-0,3	n.a.	-1,0	-1,7	-2,0	-2,2	n.a.	n.a.	n.a.
LV	-0,8	-1,8	-2,2	-1,4	-0,3	n.a.	-1,7	-0,8	-1,4	-2,4	0,0	-0,4	0,2
LT	-0,3	-0,7	-0,1	0,1	1,1	n.a.	-0,6	-0,2	-0,9	-1,1	-0,1	0,2	1,0
LU	1,9	0,4	-0,1	0,0	0,6	1,6	2,2	2,0	0,4	0,1	0,0	0,1	-0,2
MT	0,3	0,3	0,3	0,6	0,5	n.a.	-2,6	0,4	0,4	0,7	-0,1	-0,1	-0,3
NL	0,7	0,3	0,5	0,8	1,1	n.a.	-1,0	0,7	0,2	0,4	0,0	0,0	0,2
AT	-1,0	-0,8	-0,8	-0,5	-0,4	-0,2	-0,3	-1,0	-1,1	-0,9	0,1	0,3	0,1
PT	-2,0	-1,7	-1,0	-0,5	0,0	0,4	-2,3	-2,0	-2,2	-2,4	0,1	0,5	1,3
SI	-1,6	-0,9	-0,7	-0,4	-0,2	n.a.	-2,0	-1,7	-1,8	-2,3	0,1	0,9	1,6
SK	-1,4	-1,1	-0,5	-0,4	-0,5	n.a.	-2,3	-1,5	-1,4	-0,9	0,1	0,3	0,4
FI	-0,9	-1,4	-1,0	-0,9	-0,4	n.a.	-1,1	-0,9	-1,3	-1,4	-0,1	0,0	0,3
EA	-1,1	-1,0	-0,8	-0,5	-0,3	0,5	-1,1	-1,1	-1,2	-1,4	0,0	0,2	0,6
BG	0,2	-0,5	-0,4	0,1	-0,1	n.a.	-1,4	0,1	-0,4	-0,3	0,1	-0,1	-0,1
CZ	0,5	0,2	0,1	0,3	0,4	n.a.	-0,6	0,5	0,0	-0,2	0,0	0,2	0,4
DK	-0,1	0,0	0,3	0,5	0,3	n.a.	-1,8	0,0	-0,4	-0,1	-0,1	0,4	0,4
HR	-0,2	-1,7	-1,8	-1,6	-1,3	n.a.	-2,0	-0,3	-1,7	-2,1	0,1	-0,1	0,3
HU	-1,6	-3,2	-3,1	-2,5	-2,1	-1,7	-1,6	-1,9	-3,4	-3,7	0,2	0,3	0,6
RO	-2,4	-2,9	-3,0	-2,9	-2,6	n.a.	-0,6	-2,6	-3,9	-4,0	0,3	1,0	1,0
PL	-2,1	-2,9	-2,6	-2,3	-1,6	n.a.	-2,4	-2,2	-3,2	-3,1	0,1	0,3	0,5
SE	0,7	0,4	0,7	1,7	2,3	n.a.	0,5	0,8	0,4	0,8	-0,1	0,0	-0,1
UK	-2,9	-3,2	-2,1	-1,1	-0,9	-0,9	-4,1	-3,0	-3,1	-2,2	0,1	-0,1	0,1
EU	-1,4	-1,4	-1,1	-0,6	-0,4	-0,1	-1,6	-1,4	-1,5	-1,5	0,0	0,1	0,5

For SCPs: recalculated by Commission services on the basis of the information in the programme according to the commonly-agreed methodology. In case of missing programmes: weighted average of the figures for those countries that have submitted a programme. Commission EU averages are based on UK Fiscal year data.
Source: 2017 Stability and Convergence Programmes, European Commission 2017 spring forecast.

Table A1.6:   **Output gap (% of GDP)**

	2017: updates of the stability and convergence programmes						Commission services'spring 2017 forecast				Difference compared to forecast (red is higher in programme)		
	2016	2017	2018	2019	2020	2021	2015	2016	2017	2018	2016	2017	2018
BE	-0,5	-0,4	-0,1	0,0	0,2	0,0	-0,5	-0,6	-0,4	0,0	0,1	0,0	-0,1
CY	-1,1	0,3	1,4	1,9	2,3	0,0	-3,3	-0,8	0,8	2,0	-0,2	-0,5	-0,6
DE	0,1	-0,2	-0,1	0,0	0,0	-0,1	-0,2	-0,1	-0,2	0,1	0,2	0,0	-0,2
EE	0,1	-0,1	0,4	0,4	0,3	0,3	1,0	0,3	0,1	0,6	-0,2	-0,2	-0,2
IE	1,2	1,2	0,7	0,1	-0,5	-1,1	1,6	1,8	1,1	0,1	-0,6	0,2	0,6
ES	-1,8	-0,2	0,8	1,8	2,6	0,0	-4,5	-1,8	0,2	1,6	0,0	-0,4	-0,7
FR	-1,3	-1,0	-0,8	-0,5	-0,2	0,0	-1,4	-1,3	-1,1	-0,6	0,0	0,1	-0,2
IT	-1,7	-0,8	-0,2	0,2	0,5	0,0	-2,8	-1,7	-0,8	0,0	0,0	0,0	-0,2
LV	1,6	2,7	1,5	0,5	-0,5	0,0	1,1	1,6	1,8	1,6	0,0	0,9	0,0
LT	1,1	1,1	0,8	0,6	0,6	0,0	0,6	0,8	1,3	1,8	0,3	-0,2	-1,0
LU	-0,9	-0,5	0,8	1,3	0,5	-0,9	-2,1	-1,0	-0,3	0,3	0,1	-0,1	0,4
MT	1,9	0,9	0,3	-0,3	-0,2	0,0	2,6	1,6	0,6	0,2	0,3	0,3	0,0
NL	-0,8	-0,1	0,3	0,3	0,4	0,0	-1,6	-0,8	0,0	0,5	0,0	-0,1	-0,2
AT	-0,9	-0,4	0,0	0,1	0,0	-0,2	-0,9	-0,8	-0,4	-0,2	-0,1	0,1	0,2
PT	-0,7	-0,1	0,2	0,4	0,7	1,0	-1,6	-0,6	0,4	1,0	-0,1	-0,5	-0,8
SI	-0,6	1,1	1,9	1,9	1,6	0,0	-1,8	-0,4	1,4	2,5	-0,2	-0,2	-0,6
SK	-0,6	-0,4	0,0	0,9	1,3	0,0	-1,2	-0,3	0,2	0,8	-0,3	-0,6	-0,8
FI	-1,7	-1,6	-0,8	0,2	0,4	0,0	-2,7	-1,8	-1,4	-0,5	0,1	-0,2	-0,3
EA	-0,8	-0,5	-0,1	0,2	0,4	-0,1	-1,5	-0,9	-0,4	0,1	0,0	0,0	-0,2
BG	-0,5	-0,4	-0,4	0,0	0,5	n.a.	-0,8	-0,2	-0,1	-0,1	-0,2	-0,3	-0,3
CZ	0,3	0,3	0,3	0,3	0,2	n.a.	0,0	0,2	0,5	0,9	0,1	-0,2	-0,6
DK	-1,3	-1,3	-1,0	-0,8	-0,4	n.a.	-1,5	-1,4	-1,4	-1,3	0,1	0,1	0,2
HR	-1,5	0,8	2,0	2,9	3,7	n.a.	-3,0	-1,3	1,0	2,5	-0,2	-0,2	-0,5
HU	-0,3	0,7	1,4	1,4	1,3	0,9	0,1	0,2	1,4	2,5	-0,5	-0,7	-1,1
RO	-0,9	-0,1	0,4	1,1	1,7	n.a.	-1,3	-0,1	0,7	0,8	-0,8	-0,8	-0,4
PL	-0,6	-0,1	0,2	0,5	0,9	n.a.	-0,3	-0,3	0,4	0,5	-0,3	-0,5	-0,4
SE	0,3	0,1	-0,2	-0,5	-0,3	n.a.	-0,4	0,2	0,0	-0,2	0,1	0,1	0,0
UK	0,4	0,6	0,3	0,1	0,0	-0,1	0,3	0,5	0,6	0,3	-0,1	0,0	0,0
EU	-0,6	-0,2	0,0	0,2	0,3	-0,1	-1,1	-0,6	-0,2	0,2	0,0	0,0	-0,2

For SCPs: recalculated by Commission services on the basis of the information in the programme according to the commonly-agreed methodology. In case of missing programmes: weighted average of the figures for those countries that have submitted a programme. Commission EU averages are based on UK Fiscal year data.
Source: 2017 Stability and Convergence Programmes, European Commission 2017 spring forecast.

Table A1.7: **Structural primary balance (% of GDP)**

	2016: updates of the stability and convergence programmes						Commission services'spring 2017 forecast				Difference compared to forecast (red is higher in programme)		
	2016	2017	2018	2019	2020	2021	2015	2016	2017	2018	2016	2017	2018
BE	0,6	1,3	1,6	1,9	1,9	0,0	0,7	0,7	1,0	0,4	-0,1	0,3	1,2
CY	3,6	2,5	2,2	2,0	1,8	0,0	4,3	3,5	2,2	2,0	0,1	0,3	0,2
DE	2,1	1,8	1,4	1,4	1,6	1,6	2,3	2,2	1,8	1,3	-0,1	0,0	0,1
EE	0,4	0,0	-0,8	-0,7	-0,4	0,1	0,0	0,3	-0,2	-0,7	0,1	0,3	-0,1
IE	1,0	1,0	1,5	2,0	2,5	3,2	0,7	0,6	1,1	1,7	0,3	0,0	-0,2
ES	-0,7	0,1	0,2	0,4	0,7	0,0	0,6	-0,7	-0,8	-1,0	0,0	0,9	1,2
FR	-0,6	-0,3	0,1	0,6	0,8	0,0	-0,7	-0,6	-0,5	-1,0	0,0	0,3	1,1
IT	2,2	1,9	2,5	3,4	3,5	0,0	3,1	2,2	1,9	1,5	0,0	0,0	1,0
LV	0,4	-0,8	-1,3	-0,4	0,6	0,0	-0,3	0,4	-0,4	-1,4	0,0	-0,4	0,1
LT	1,1	0,6	0,9	1,1	1,8	0,0	0,9	1,2	0,3	0,1	-0,1	0,2	0,8
LU	2,3	0,7	0,2	0,3	0,9	1,8	2,5	2,3	0,7	0,4	0,0	0,0	-0,2
MT	2,5	2,2	2,2	2,3	2,1	0,0	-0,1	2,6	2,4	2,5	-0,1	-0,2	-0,4
NL	1,8	1,3	1,4	1,6	1,8	0,0	0,2	1,7	1,2	1,3	0,0	0,1	0,2
AT	1,1	1,2	1,0	1,2	1,2	1,4	2,1	1,1	0,9	1,0	0,1	0,3	0,0
PT	2,3	2,5	3,0	3,4	3,8	4,0	2,3	2,2	2,0	1,7	0,1	0,5	1,3
SI	1,6	1,5	1,4	1,6	1,6	0,0	1,3	1,6	1,2	0,5	0,1	0,3	0,9
SK	0,3	0,2	0,8	0,8	0,6	0,0	-0,5	0,2	0,0	0,4	0,1	0,2	0,3
FI	0,1	-0,5	-0,1	-0,1	0,4	0,0	0,0	0,2	-0,3	-0,4	-0,1	-0,1	0,3
EA	1,0	1,0	1,2	1,5	1,7	1,8	1,3	1,1	0,9	0,5	0,0	0,2	0,6
BG	0,9	0,3	0,3	0,8	0,6	0,0	-0,4	0,9	0,4	0,5	0,1	-0,1	-0,2
CZ	1,4	1,1	0,9	1,1	1,2	0,0	0,4	1,5	0,9	0,6	0,0	0,2	0,3
DK	1,3	1,1	1,3	1,6	1,3	0,0	-0,3	1,3	0,6	0,8	-0,1	0,5	0,5
HR	3,0	1,5	1,4	1,5	1,8	0,0	1,6	2,9	1,3	0,7	0,1	0,2	0,7
HU	1,6	-0,3	-0,4	0,0	0,4	0,7	1,9	1,3	-0,6	-1,0	0,2	0,3	0,6
RO	-0,9	-1,5	-1,5	-1,4	-1,2	0,0	1,1	-1,1	-2,3	-2,4	0,3	0,8	0,9
PL	-0,4	-1,2	-0,8	-0,5	0,2	0,0	-0,6	-0,5	-1,5	-1,5	0,1	0,4	0,7
SE	1,2	0,8	1,2	2,2	2,8	0,0	1,0	1,2	0,9	1,4	-0,1	0,0	-0,2
UK	-0,5	-0,4	0,5	1,3	1,4	1,5	-1,7	-0,5	-0,6	0,3	0,1	0,2	0,2
EU	0,7	0,7	0,9	1,3	1,5	1,6	0,7	0,8	0,5	0,4	0,0	0,2	0,5

For SCPs: recalculated by Commission services on the basis of the information in the programme according to the commonly-agreed methodology. In case of missing programmes: weighted average of the figures for those countries that have submitted a programme. Commission EU averages are based on UK Fiscal year data.
Source: 2017 Stability and Convergence Programmes, European Commission 2017 spring forecast.

Table A1.8: **Real GDP growth (%)**

	2017: updates of the stability and convergence programmes						Commission services'spring 2017 forecast				Difference compared to forecast (red is higher in programme)		
	2016	2017	2018	2019	2020	2021	2015	2016	2017	2018	2016	2017	2018
BE	1,2	1,4	1,5	1,5	1,6	n.a.	1,5	1,2	1,5	1,7	0,0	-0,1	-0,2
CY	2,8	2,9	2,9	2,7	2,7	n.a.	1,7	2,8	2,5	2,3	0,0	0,4	0,6
DE	1 3/4	1 1/4	1 2/4	1 2/4	1 2/4	1 2/4	1,7	1,9	1,6	1,9	0,0	-0,3	-0,3
EE	1,6	2,4	3,1	2,8	2,7	2,7	1,4	1,6	2,3	2,8	0,0	0,1	0,3
IE	5,2	4,3	3,7	3,1	2,7	2,5	26,3	5,2	4,0	3,6	0,0	0,4	0,0
ES	3,2	2,7	2,5	2,4	2,4	n.a.	3,2	3,2	2,8	2,4	0,0	-0,1	0,1
FR	1,2	1,5	1,5	1,6	1,7	n.a.	1,3	1,2	1,4	1,7	0,0	0,1	-0,2
IT	0,9	1,1	1,0	1,0	1,1	n.a.	0,8	0,9	0,9	1,1	0,0	0,2	-0,1
LV	2,0	3,2	4,3	4,4	4,3	n.a.	2,7	2,0	3,2	3,5	0,0	0,0	0,8
LT	2,3	2,7	2,6	2,5	2,4	n.a.	1,8	2,3	2,9	3,1	0,0	-0,2	-0,6
LU	4,2	4,4	5,2	4,4	2,8	1,9	4,0	4,2	4,3	4,4	0,0	0,1	0,8
MT	5,0	4,3	3,7	3,5	3,4	n.a.	7,4	5,0	4,6	4,4	0,0	-0,3	-0,7
NL	2,2	2,1	1,8	1,7	1,7	n.a.	2,0	2,2	2,1	1,8	0,0	0,0	0,0
AT	1,5	2,0	1,8	1,7	1,6	1,6	1,0	1,5	1,7	1,7	0,0	0,3	0,1
PT	1,4	1,8	1,9	2,0	2,1	2,2	1,6	1,4	1,8	1,6	0,0	0,0	0,3
SI	2,5	3,6	3,2	2,6	2,6	n.a.	2,3	2,5	3,3	3,1	0,0	0,3	0,1
SK	3,3	3,3	4,0	4,4	3,8	n.a.	3,8	3,3	3,0	3,6	0,0	0,3	0,4
FI	1,4	1,2	1,8	2,0	1,0	n.a.	0,3	1,4	1,3	1,7	0,0	-0,1	0,1
EA	1,8	1,7	1,7	1,7	1,7	1,6	2,2	1,8	1,7	1,8	0,0	0,0	-0,1
BG	3,4	3,0	3,1	3,2	3,2	n.a.	3,6	3,4	2,9	2,8	0,0	0,1	0,3
CZ	2,4	2,5	2,5	2,4	2,3	n.a.	4,5	2,4	2,6	2,7	0,0	-0,1	-0,2
DK	1,3	1,5	1,7	1,7	2,0	n.a.	1,6	1,3	1,7	1,8	0,0	-0,2	-0,1
HR	2,9	3,2	2,8	2,6	2,5	n.a.	1,6	2,9	2,9	2,6	0,0	0,3	0,1
HU	2,0	4,1	4,3	3,8	3,7	3,6	3,1	2,0	3,6	3,5	0,0	0,5	0,8
RO	4,8	5,2	5,5	5,7	5,7	n.a.	3,9	4,8	4,3	3,7	0,0	0,9	1,8
PL	2,7	3,6	3,8	3,9	3,9	n.a.	3,8	2,7	3,5	3,2	0,0	0,1	0,6
SE	3,3	2,6	2,1	2,0	2,5	n.a.	4,1	3,3	2,6	2,2	0,0	0,0	-0,1
UK	1,8	2,0	1,6	1,7	1,9	2,0	1,9	2,0	1,7	1,5	-0,2	0,3	0,1
EU	1,9	1,9	1,8	1,9	1,9	1,8	2,3	1,9	1,9	1,9	0,0	0,0	0,0

In case of missing programmes: weighted average of the figures for those countries that have submitted a programme. Commission EU averages are based on UK Fiscal year data.
Source: 2017 Stability and Convergence Programmes, European Commission 2017 spring forecast.

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