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The 2019 Stability & Convergence Programmes

An Overview and Assessment
of the Euro Area Fiscal Stance

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The 2019 Stability & Convergence Programmes

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EXECUTIVE SUMMARY

This paper provides a review of the Stability and Convergence Programmes (SCPs) that the Member States of the European Union (EU) submitted in spring 2019. After examining budgetary developments in 2018, the paper analyses fiscal projections for 2019 and medium-term plan for the 2020-2022 period. It also presents the implications for budgetary developments at euro area and EU aggregate levels and a detailed assessment of the euro area fiscal stance.

Fiscal outcomes in 2018

The budgetary situation continued to improve in 2018, bringing the aggregate deficit to its lowest level since 2000. In aggregate terms, the deficit declined for the eighth consecutive year, to 0.6% in the EU, with around half of Member States achieving a budget surplus.

The deficit reduction took place despite some moderate fiscal loosening and was attributable to favourable cyclical conditions, positive revenue developments and lower interest expenditures. At aggregate level, the budget deficit declined by 0.4 pps. in the EU. Real GDP growth above potential growth contributed to this decline, raising the cyclical component of the budget. The structural balance (i.e. the balance corrected for the business cycle and one-offs) also improved, thanks to favourable revenue developments and lower interest expenditure. By contrast, the expenditure benchmark, which is not affected by revenue windfalls and interest expenditure, points to a negative fiscal effort in 2018. Revenue windfalls also explain the larger-than-planned deficit reduction at aggregate level compared with the objectives in the 2018 SCPs, despite real GDP growing less than expected. Fiscal performances remained mixed at country level in 2018: 12 Member States recorded a structural balance above their medium-term budgetary objective (MTO), whereas the distance to the MTO widened in 9 Member States.

Fiscal projections for 2019 and 2020-22

The budgetary objectives in the SCPs imply an increase in the aggregate deficit in 2019, while the fiscal adjustment planned for the following years would result in an aggregate deficit in 2022 slightly below the 2018 level. Based on the SCP projections, the deficit would rise to 0.9% of GDP in both the EU and the euro area in 2019. It is projected to decline afterwards, reaching 0.4% of GDP in the EU and 0.3% in the euro area in 2022. However, at aggregate level, the expenditure benchmark point to a fiscal effort close to zero between 2019 and 2022.

In 2019, the SCPs project a negative fiscal effort based on the expenditure benchmark as well as a worsening in the structural balance at aggregate level. Based on the SCPs, the expenditure benchmark points to a negative fiscal effort of more than $\frac{1}{4}$ pp. of GDP this year. The worsening in the structural balance would be slightly smaller. In most countries below the MTO in 2018, the planned fiscal adjustment is backloaded, as the structural balance is not projected to improve in 2019.

The planned structural adjustment would not be sufficient to achieve the MTO in some highly-indebted Member States. While according to the SCPs the number of Member States at or above the MTO would increase from 12 in 2018 to 23 in 2022, some highly-indebted countries such as Spain, France and Italy plan to remain far from their MTO at the end of the programme period. As for the 12 Member States that have already reached their MTO in 2018, 9 plan a fiscal expansion over the programme horizon, but they would all remain at or above their MTO in 2022.

Risks to the SCP budgetary projections

While downside risks to the SCP budgetary projections for 2019 appear to be small based on the Commission 2019 spring forecast, sizeable consolidation measures are needed in some Member States to reach the 2020 budgetary targets. For 2019, the budgetary projections in Commission forecast are in line with the SCPs for the euro area and only marginally more negative for the EU. Also at country level, only four Member States have submitted budgetary projections for 2019 significantly more favourable than the Commission forecast, mainly due to different assumptions regarding the impact of

discretionary measures. Based on the no-policy-change Commission forecast, the gap to reach the planned targets in 2020 is close to ½ pp. of GDP at aggregate level and close or above 1 pp. of GDP in six Member States. Hence, the SCP budgetary targets for 2020 seem to be subject to sizeable downside risks.

The risks to the fiscal adjustments planned beyond 2020 appear contained. First, the revenue projections seem to be rather prudent, with some projected revenue shortfalls at EU level. Second, no further savings from lower interest expenditure are projected at aggregate level. Third, the required measures needed to meet the SCP objectives are reasonable in size on aggregate. However, as stated above, the SCPs targets are not particularly ambitious in some Member States with high debt levels.

Implications of debt developments and sustainability risks

In 2018, the aggregate debt-to-GDP ratio fell by around 2 pps, to 81.5% in the EU and 87.1% in the euro area. At aggregate level, the decline in the debt ratio was driven by a primary surplus above 1% of GDP and nominal GDP growing more than the implicit interest rate paid on debt, implying a debt-decreasing snowball effect. The euro area and EU aggregate debt ratios have steadily fallen since the peak of over 94% and 88% of GDP reached in 2014. By comparison, in 2018 the public debt was around 107% of GDP in the US and 236% of GDP in Japan.

The SCPs project a further decline in the debt-to-GDP ratios in most Member States over the programme horizon. Those projections imply a reduction in the aggregate debt ratio by around 7 pps. of GDP by 2022, to around 75% in the EU and 80% in the euro area. The decline of the debt ratios continues to be driven by primary surpluses and debt-decreasing snowball effect. At country level, the snowball effect would be debt-increasing only in Italy. France and Italy plan to reduce the gap to the 60% threshold by less than 1/20th per year on average over the programme period.

Medium-term fiscal sustainability risks would remain high in five Member States after the implementation of the SCP plans. At aggregate EU level, the improvement in the structural primary balance required to achieve a debt-to-GDP ratio of 60% by 2033 relative to the Commission no-policy-change forecast for 2020 amounts to 1.9 pps. of GDP over the period 2021–2025. If fiscal plans in the SCPs were fully implemented, the fiscal gap would be reduced to 0.8 pps. However, Belgium, Spain, France, Italy and Portugal would remain at high risk for medium-term fiscal sustainability.

The fiscal stance for the euro area: direction and appropriateness

After being broadly neutral in 2015-2017, the euro area fiscal stance turned slightly expansionary in 2018, based on the discretionary fiscal effort. The discretionary fiscal effort, an indicator conceptually close to the expenditure benchmark of the Stability and Growth Pact, signals slightly expansionary discretionary fiscal policies in the euro area in 2018. By contrast, the change in the structural balance indicates a slightly contractionary fiscal stance; however, such change benefited from large revenue windfalls and lower interest expenditure.

The Commission 2019 spring forecast points to an expansionary euro area fiscal stance in 2019 and, under unchanged policies, in 2020. The discretionary fiscal effort indicates an expansionary fiscal stance in 2019-2020, as net primary spending is projected to increase more than medium-term potential growth, also due to discretionary tax cuts. The change in the structural balance points to a slightly expansionary fiscal stance in both years.

An appropriate differentiation of national fiscal policies consistent with the proposed Country-Specific Recommendations would lead to a broadly neutral fiscal stance for the euro area in 2020. The combination of restrictive fiscal policies, in line with the Country-Specific Recommendations (CSRs), in Member States that are required to adjust and expansionary fiscal policies in Member States that are expected to overachieve their MTO in 2019 would lead to a broadly neutral euro area fiscal stance in 2020.

INTRODUCTION

This paper provides an overview of the 2019 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. It also includes an assessment of the fiscal stance and policy mix in the euro area.

In its 2019 Annual Growth Survey the Commission highlighted that credible actions to achieve agreed fiscal objectives, in line with the common European rules, remain essential. A number of Member States have reduced their public debt and achieved or exceeded their medium-term budgetary objective, creating scope for higher public investment to support potential growth. However, several others continue to shoulder high levels of public debt, which constrain their ability to invest for the future. These countries have also made less progress in reducing public debt over recent years. The (current) economic expansion in those countries should be used to build up buffers, further strengthen their public finances, in particular in structural terms; and prioritise expenditure on items that foster resilience and growth potential. The Annual Growth Survey also stressed the importance of improving the quality and composition of public finances and ensuring long-term sustainability of public finances.

The 2019 Euro Area Recommendation on fiscal policies adopted by the Commission and the Council called for a differentiation of fiscal policies depending on fiscal space. On 22 January 2019, the Council recommended that in the period 2019-2020, euro area Member States, while pursuing policies in full respect of the Stability and Growth Pact, support public and private investment and improve the quality and composition of public finances. It is further recommended to rebuild fiscal buffers, especially in euro area countries with high levels of public debt. This horizontal recommendation feeds into the Country-Specific Recommendations. In the context of the European Semester, the Council recommendations, both horizontal and country-specific, are expected to guide the national budgets for 2020. For this reason, plans for 2020 are given primary attention in the present note.

This note consists of four sections. Section 1 examines the implementation of SCPs in 2018. Section 2 presents the budgetary plans set out by Member States in their SCPs over the period 2019 to 2022. It also analyses and assesses the overall fiscal stance in the euro area. Section 3 contains an analysis of the risks to the budgetary trajectories contained in the SCPs. For 2019-2020 it focuses on risks to SCP budgetary targets relative to the Commission 2019 spring forecast, while for 2021-2022 revenue targets as well as interest rate risks are assessed. 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 2019 spring forecast.

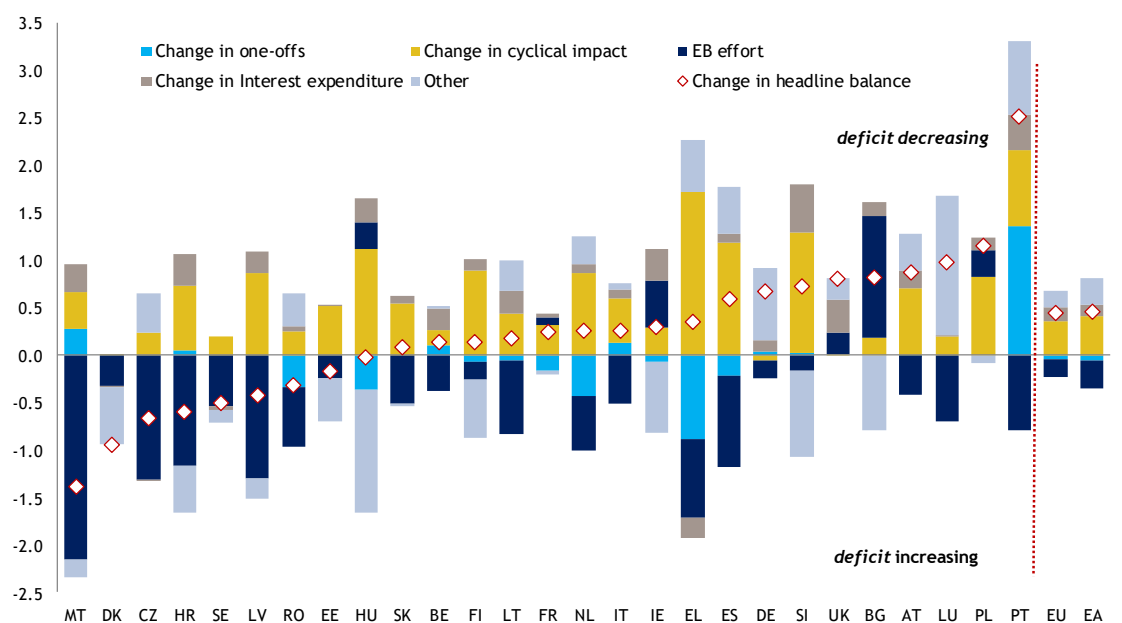
⁽¹⁾ The analysis is built around data reported by Member States in their 2019 SCPs, unless otherwise specified.

1. 2018 AT A GLANCE: BUDGETARY DEVELOPMENTS

Overall budgetary developments in 2018

In aggregated terms, public deficits decreased for the eighth year in a row and reached the lowest level since 2000. The aggregate headline deficit fell from 1.0% of GDP in 2017 to 0.6% in 2018 in the EU, and from 1.0% to 0.5% in the euro area. As shown in Graph 1.1, the deficit reduction was driven by the improvement in cyclical conditions (i.e. actual real GDP growth above medium-term potential growth), which had a deficit-decreasing impact of around 0.4 pps. of GDP in both the EU and the euro area. Lower interest expenditure (0.1 pp. of GDP) and other factors (0.3 pps. of GDP, essentially revenue windfalls) also supported the deficit reduction in both the EU and the euro area in 2018. Conversely, the fiscal effort (based on the expenditure benchmark) had a deficit increasing impact of around 0.2 pps. of GDP in the EU and 0.3 pps. in the euro area. ⁽²⁾

Graph 1.1: Drivers of the change in the headline balance in EU Member States in 2018 (pps. of GDP)



Note: A positive (negative) value means contributing to an improvement (worsening) of the headline balance. The 'other' category is defined as a residual and includes: (i) revenue windfalls (+) or shortfalls (-), i.e. revenue developments not explained by nominal GDP growth or discretionary revenue measures; (ii) the impact of smoothing Gross Fixed Capital Formation (GFCF) in the expenditure benchmark; and (iii) a possible different impact of cyclical unemployment benefits used in the expenditure benchmark and in the cyclical component. Here, the change in the cyclical component is based on the medium-term potential growth used to compute the expenditure benchmark. Cyprus falls outside of the graph as the headline balance worsened by 6.5 pps. of GDP in 2018, due to a large one-off support to the banking sector (in the order of 8% of GDP). Data for the UK refer to the financial year 2018/2019.

Source: European Commission 2019 spring forecast

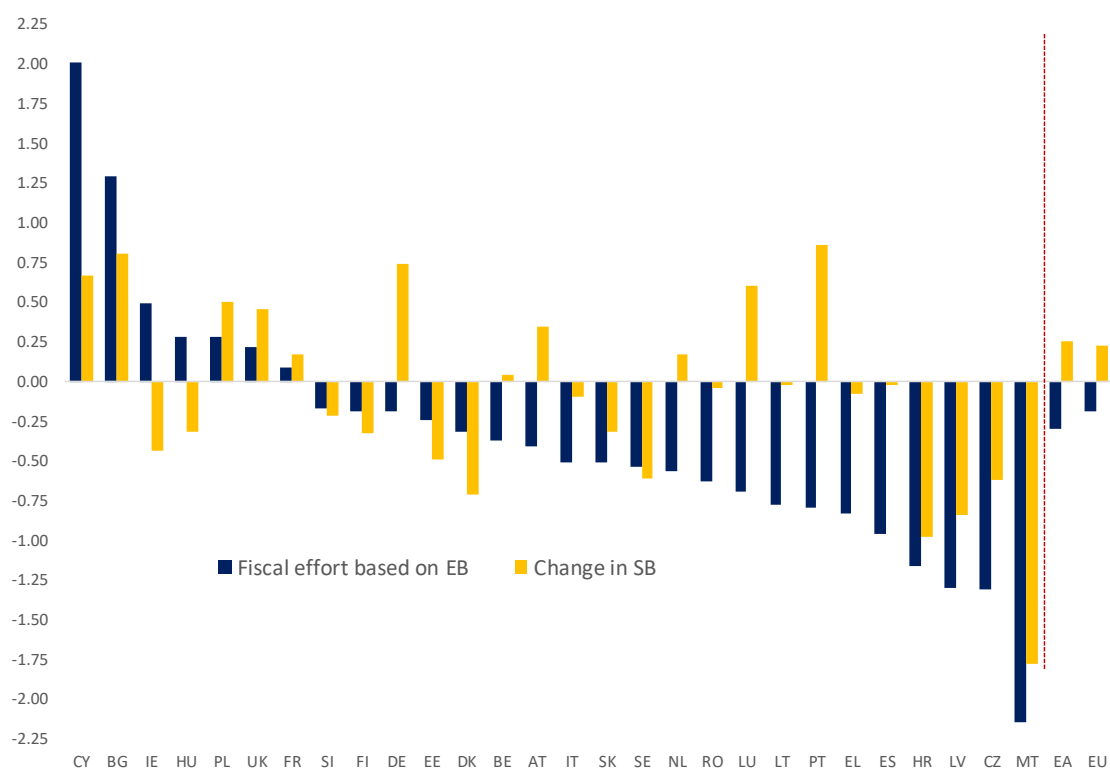
Headline balances improved in about two thirds of Member States in 2018 compared to 2017, primarily due to favourable cyclical conditions and revenue windfalls (Graph 1.1). However, the headline balance fell by at least 0.3 pps. of GDP in MT, DK, CZ, HR, SE, RO and LV, primarily due to a sizeable negative fiscal effort (based on the expenditure benchmark), and by 6.5 pps. of GDP in CY, due to a large one-off impact of bank recapitalisation. All Member States (except DE and DK) benefited from improving cyclical conditions, as in 2018 actual real GDP growth turned out above (medium-term) potential growth. In contrast, the fiscal effort based on the expenditure benchmark gave a negative

⁽²⁾ For additional information on the computation of the expenditure benchmark see European Commission (2019). "Vade Mecum on the SGP". *European Economy, Institutional Paper 101*, pp 28-32. Available online: https://ec.europa.eu/info/sites/info/files/economy-finance/ip101_en.pdf

contribution to the change in the headline balance in most Member States. Only in CY, BG, IE, FR, HU, PL and UK the fiscal effort was positive. An increase in interest expenditure was recorded only in EL.

The expenditure benchmark and the structural balance provide contrasting signals about the aggregate fiscal effort in 2018 (Graph 1.2). The aggregate structural balance improved in 2018, by 0.2 pps. of GDP in the EU and by 0.3 pps. in the euro area. Conversely, as stated above, the fiscal effort (based on the expenditure benchmark) is estimated to have worsened by 0.2 pps. of GDP in the EU and by 0.3 pps. in the euro area. The difference between the two indicators of fiscal effort is partly explained by lower interest expenditure, which is not included in the expenditure benchmark. In addition, the 2018 structural balance benefited from revenue windfalls and a higher potential growth. A detailed discussion on the euro area fiscal stance in 2018 can be found at the end of this section.

Graph 1.2: Fiscal effort based on the expenditure benchmark and change in the structural balance in 2018 (pps. of GDP)



Note: The fiscal effort based on the expenditure benchmark is computed here by using outturn data for GDP deflators in 2018, while the Country-Specific Recommendations for expenditure benchmark developments in 2018 were based on GDP deflators as projected in the Commission 2017 spring forecast. Data for the UK refer to the financial year 2018/2019.

Source: European Commission 2019 spring forecast

The size and direction of the fiscal effort in 2018 differs considerably across Member States and according to the chosen indicator (Graph 1.2). The change in the fiscal effort based on the expenditure benchmark varied between -2.1 pps. (MT) and +2.0 pps. of GDP (CY), while the change in the structural balance varied between -1.8 pps. (MT) and +0.9 pps. of GDP (PT). In 6 out of the 11 Member States that posted an increase in the structural balance, the fiscal effort based on the expenditure benchmark pointed to the opposite direction (DE, BE, AT, NL, LU and PT). Differences between the two indicators larger than 0.5 pps. of GDP were recorded in around half of the Member States. This divergence is partly

explained by large (at least 0.5 pps. of GDP) revenue windfalls (CZ, DE, ES, LU, PT, PL and RO) or shortfalls (DK, EL, FI and HU). ⁽³⁾

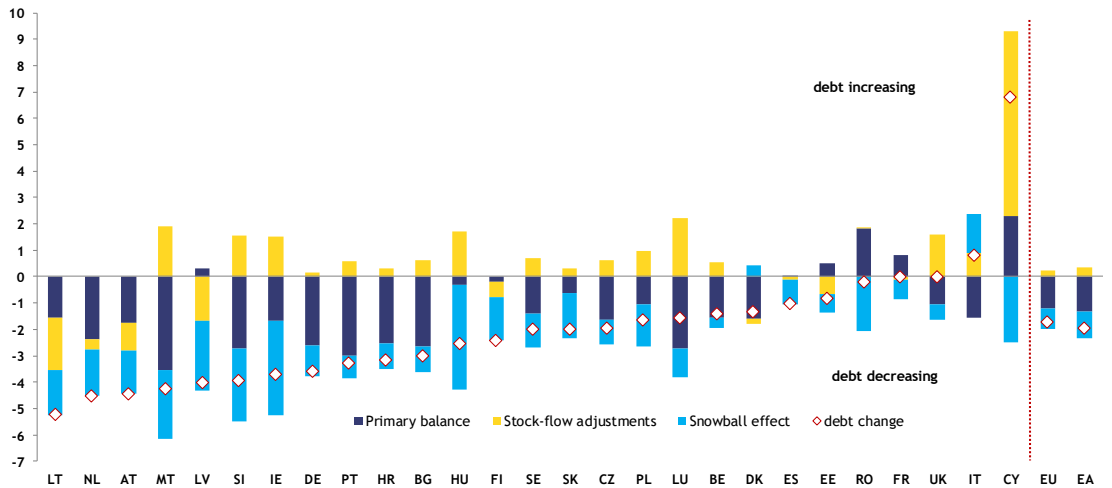
12 Member States recorded a structural balance above the MTO in 2018, but 9 further departed from it. Among the 11 Member States that based on the Commission 2019 spring forecast were above the MTO already in 2017, 5 (CZ, DK, HR, MT and SE) maintained a structural position above the MTO despite a worsening structural balance, while 6 either further increased or recorded no change in their structural balance (BG, DE, CY, LT, LU and NL). In addition, AT increased the structural balance and achieved its MTO in 2018. EL, which after the economic adjustment programme has nominated an MTO of +0.25% of GDP as of 2020, recorded a structural surplus of 5% of GDP in 2018. As for the other 14 Member States in the preventive arm, 3 (PL, PT and UK) made some progress towards their MTO in 2018, 2 (BE and FR) recorded a similar structural balance than in 2017, while 9 (EE, IE, IT, LV, HU, RO, SI, SK and FI) worsened their structural position. Similar indications come from the fiscal effort based on expenditure benchmark for these 14 Member States: a negative effort was recorded in 9 countries (BE, EE, IT, LV, PT, RO, SI, SK and FI) and a positive effort in 5 (IE, FR, HU, PL and UK). Finally, ES corrected its excessive deficit in 2018 but with no fiscal effort based on the structural balance and a negative effort based on the expenditure benchmark.

Debt-to-GDP ratios continued to decrease in 2018, standing at around 82% and 87% in the EU and the euro area respectively. ⁽⁴⁾ Public debt peaked in 2014 at around 88% of GDP in the EU and 94% in the euro area, and declined steadily over 2015-2017. In 2018, it decreased by 2.0 pps. of GDP in the EU and 1.7 pps. in the euro area (to 81.5% and 87.1% of GDP, respectively). The decline was driven, similar as in 2017, by primary surpluses and debt-decreasing snowball effect, the latter due to GDP growth exceeding the implicit average cost of servicing the outstanding debt (i.e. $r < g$) (Graph 1.3). In recent years, public debt developments have been less favourable in the US and Japan (Box 1.1). Most Member States recorded a primary surplus in 2018, which contributed to debt reduction. The exceptions are FR, ES, LV, RO and EE, which recorded primary deficits also in 2017, and CY and LV. The snowball effect turned debt-reducing in all Member States but IT and, to a lesser extent, DK. Stock-flow adjustments, which mainly refer to financial transactions and discrepancies between cash and ESA2010 figures, were broadly neutral in aggregate terms in the EU and the euro area. However, they had a substantial upward effect on public debt of more than 1% of GDP in LU, MT, HU, UK, SI, IE and PL, and especially in CY where the debt-increasing impact was 7% of GDP. By contrast, the stock-flow adjustment had a sizeable downward impact in LT, LV and AT. All in all, in 2018 debt ratios fell in all Member States except CY and IT (where it increased) and in FR and the UK (no change).

⁽³⁾ Compared to revenue developments that would have been expected based on an elasticity of one relative to nominal GDP growth, excluding discretionary revenue measures and revenues from EU funds as estimated in the Commission 2019 spring forecast.

⁽⁴⁾ Aggregate debt figures are not consolidated for intergovernmental lending amounting to around 1.5% of GDP in the EU and 2% of GDP for the euro area. Excluding intergovernmental lending, in 2018 the debt ratio was 80.0% of GDP in the EU (81.7% in the 2017) and 85.1% in the euro area (87.1% in 2017).

Graph 1.3: Contributions to the change in the debt-to-GDP ratio in 2018 (pps. of GDP)



Note: The graph disaggregates the changes in debt-to-GDP ratios in 2018 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. Data for the UK refer to the financial year 2018/2019.

Source: European Commission 2019 spring forecast

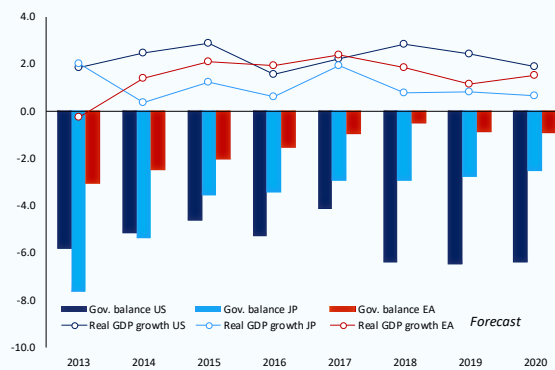
Comparison between the 2018 outcome and the 2018 Stability and Convergence Programmes

Compared to the 2018 Stability and Convergence Programmes (SCPs), the aggregate headline balance turned out better than planned in 2018, despite lower economic growth (Table 1.1). Compared to the 2018 SCPs, real GDP turned out worse than expected in both the EU and the euro area. As a result, the output gap increased by less than projected in the SCPs (the level of the output gap turned out higher due to its upward revision in 2017). At the same time, the GDP deflator turned out broadly as expected. Nevertheless, the headline balance improved by more than projected in the 2018 SCPs mainly due to higher-than-planned revenues. Similar, structural balance turned out better than projected, driven by revenue windfalls. In contrast, the fiscal effort (based on the expenditure benchmark) turned out as projected in both the EU and the euro area.

Box 1.1: Debt and deficit developments in the euro area: comparison with the US and JP

On aggregate, deficit levels are consistently smaller in the euro area than in the US and Japan (Graph 1). Over the period 2013-2018, euro-area deficit levels were on a declining trend while economic conditions were improving. On average, in this period the euro area had somewhat larger real GDP growth than Japan (1.6% of GDP and 1.2% of GDP, respectively) while posting considerably smaller deficit (-1.8% of GDP and -4.3% of GDP, respectively). Over the same period, the US had the highest real GDP growth on average (2.3%), yet also the largest deficit (-5.2% of GDP). These differences in budgetary developments are expected to continue in the forecast period.

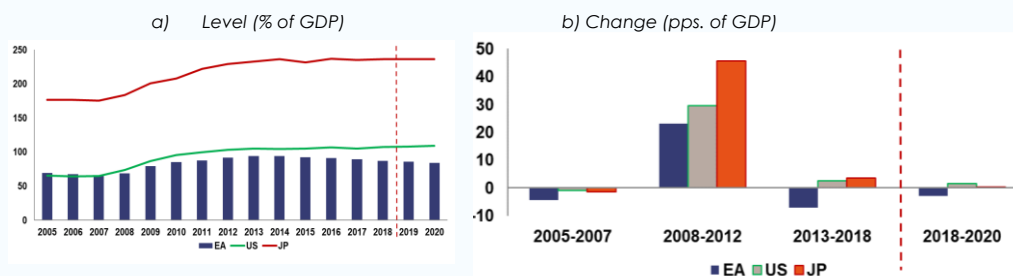
Graph 1: Government balance and macroeconomic developments for EA, US and JP



Source: European Commission 2019 spring forecast

Debt levels in the euro area are on a declining trend, remaining well below the debt levels in Japan and the US. The debt level in the euro area declined from 94% of GDP in 2013 to 87% of GDP in 2018. Over the same period, debt-to-GDP ratio slightly increased in the US and Japan, reaching 107% and 236% of GDP respectively in 2018. Until 2008, the US had smaller debt-to-GDP ratio than the euro area (Graph 2a). In 2008, the negative gap closed and turned positive. The positive gap kept increasing, reaching more than 20 pps. of GDP in 2018. Over the same period, the positive gap between the euro area and Japan increased even more, from 107 pps. of GDP in 2005 to almost 150 pps. of GDP in 2018. The widening gaps between the euro area and the US/JP stem from a smaller increase in debt in the euro area during the crisis period (see Graph 2b). In addition, since 2014, the debt to GDP ratio is on a declining trend in the euro area, driven by the decline in Germany and the Netherlands, while it moderately increased in Japan and the US.

Graph 2: Debt developments in the EA, the US and JP



Source: European Commission 2019 spring forecast

The higher-than-projected fall in the 2018 headline deficit of 0.3 pps. of GDP in the EU and 0.2 pps. in the euro area stems from better-than-planned revenue developments. Revenue windfalls largely explain a better-than-projected change in the structural balance in 2018 (by around ½ pp. of GDP), while interest expenditure was broadly similar as projected in the SCPs. By contrast, cyclical conditions turned out less buoyant than expected, implying a lower positive impact on the budget balance (of around 0.2 pps. of GDP).

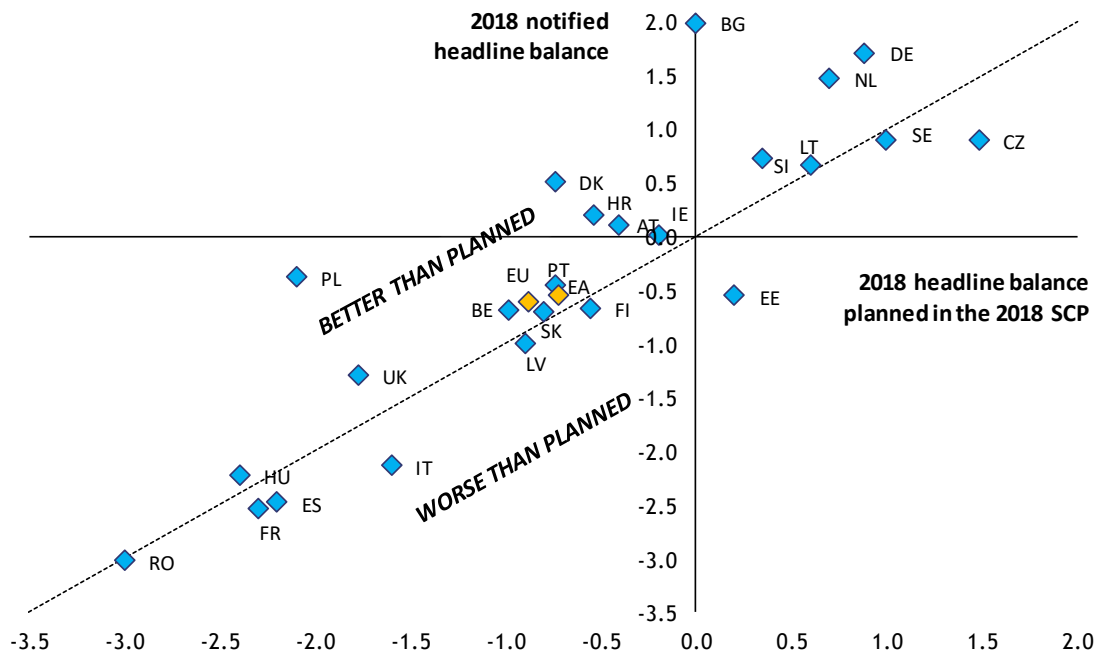
Table 1.1: Economic and budgetary developments in the EU and the euro area in 2018

		2018 SCP planned	COM spring forecast
EU	Real GDP growth	2.4	2.0
Euro area		2.4	1.9
EU	Nominal GDP growth	4.0	3.6
Euro area		3.9	3.3
EU	Inflation (GDP deflator)	1.5	1.6
Euro area		1.5	1.4
EU	Output gap (% pot. GDP)	0.5	0.7
Euro area		0.4	0.6
EU	Headline balance (% GDP)	-0.9	-0.6
Euro area		-0.7	-0.5
EU	Interest expenditure (% GDP)	1.9	2.0
Euro area		1.8	1.8
EU	Change in output gap (pps. pot. GDP)	0.6	0.3
Euro area		0.8	0.4
EU	Change in headline balance (% GDP)	0.1	0.4
Euro area		0.2	0.3
EU	Change in SB (pps. pot. GDP)	-0.1	0.3
Euro area		-0.2	0.3
EU	Fiscal effort based on EB (% GDP)	-0.2	-0.2
Euro area		-0.3	-0.3

Note: Aggregate for the EU and the euro area do not include figures for EL as in 2018 the country did not submit the SP.
Source: European Commission 2019 spring forecast and 2018 SCPs

Two thirds of Member States reached or over-performed the 2018 headline balance target set in their 2018 SCPs (Graph 1.4). The target was over-performed by at least 0.5 pps. of GDP in nine Member States, as a result of higher than planned structural improvement (BG, PL, LU, MT, DE, NL, HR and AT) and higher than planned one-offs (DK), despite the less positive impact of the cycle on the budget outcome than assumed in last year's SCPs (DK, HR, DE and LU). In contrast, the target was under-performed by at least 0.5 pps. of GDP in four Member States (CZ, EE, IT and CY), primarily because of larger-than-planned structural deterioration (CZ and EE) or due to higher interest expenditure and lower growth (IT). In CY, one-off support measures to the banking sector in the order of 8% of GDP explain why the headline target for 2018 has not been reached.

Graph 1.4: Headline balance in EU Member States in 2018, outturn vs 2018 SCPs (% of GDP)



Notes: The graph plots the notified 2018 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 2018 outcome was better (worse) than planned. CY falls outside the scope of the graph as it notified a headline deficit of 4.8% of GDP compared to a planned surplus of 1.7% of GDP due to large one-offs.

Source: European Commission based on Commission 2019 spring forecast and 2018 SCPs

Developments of the euro area fiscal stance in recent years

Several indicators are used in literature to assess the fiscal stance. ⁽⁵⁾ In this paper, three fiscal stance measures are considered: the discretionary fiscal effort, ⁽⁶⁾ the change in the structural balance and the change in the structural primary balance. ⁽⁷⁾

The euro area fiscal stance was mildly expansionary in 2018, based on the discretionary fiscal effort (DFE). The DFE, conceptually close to the expenditure benchmark that has become the operational indicator of compliance in the preventive arm of the SGP, shows that fiscal policies supported economic activity in 2018 (Graph 1.5). This followed a contractionary and pro-cyclical fiscal stance in 2011-2014, and an overall broadly neutral fiscal stance in 2015-2017. ⁽⁸⁾ The change in the fiscal stance has helped the economic recovery in the euro area since 2015, in a period in which monetary policy has been

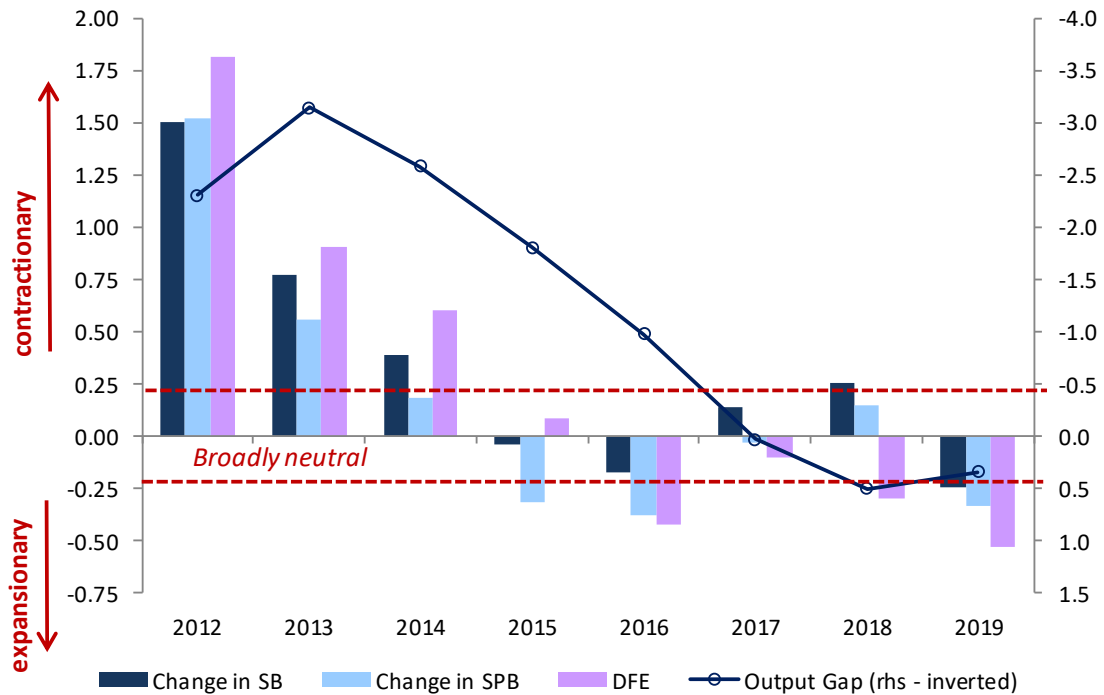
⁽⁵⁾ See for a review IMF (1995). "Guidelines for Fiscal Adjustment". *Pamphlet Series No. 49*; European Commission (2016). "Report on Public Finances in EMU". *European Economy, Institutional Paper 045*, chapter IV.

⁽⁶⁾ The DFE is based on the budgetary developments that are deemed to be under the control of governments. On the expenditure side, the DFE looks at the increase in primary expenditure – net of one-offs and cyclical expenditures – relative to medium-term potential growth. On the revenue side, it considers discretionary revenue measures – net of one-offs – as assessed in the Commission forecast and in the Stability Programmes. See for more details Carnot, N. and de Castro, F. (2015). "The Discretionary Fiscal Effort: an Assessment of Fiscal Policy and its Output Effect". *European Commission, Economic Papers 543*.

⁽⁷⁾ The change in the structural (primary) balance, although capturing the broad economic effects of fiscal policy, can be distorted by the following flaws: (i) swings in fiscal elasticities (i.e. tax windfalls or shortfalls); (ii) revisions in the estimations due to difficulties in real time measurement of the output gap; and (iii) effects outside the control of governments (e.g. change in interest rates affecting the structural balance).

⁽⁸⁾ Given the uncertainty around the measure of structural balance as an unobserved variable and to avoid risks of fine-tuning, an interval of the fiscal stance between -0.2% and 0.2% is considered to be broadly neutral.

Graph 1.5: **Developments of key indicators for the fiscal stance in the euro area (% of pot. GDP), based on Commission 2019 spring forecast**



Note: The measures of the fiscal stance presented here are: the discretionary fiscal effort (DFE), the change in structural balance (SB) and the change in structural primary balance (SPB).

Source: European Commission 2019 spring forecast

constrained at the zero lower bound. Looking more in detail at the budgetary composition of the DFE in 2018 (Graph 1.6), primary expenditure – net of one-offs and cyclical unemployment benefits – provided a fiscal impulse to the euro area economy of around 0.3 pps. of GDP. This is the result of primary expenditure increasing more than medium-term nominal potential growth in 2018 (3.3% as against 2.5%) (Table 1.2) ⁽⁹⁾ ⁽¹⁰⁾ These developments follow no fiscal impulse from primary expenditure in 2017. On the revenue side, ⁽¹¹⁾ the fiscal impulse from discretionary revenue measures was nil in 2018, as in 2017. Box 1.2 presents a comparison with the euro area fiscal stance based on IMF and OECD data.

At country level, the DFE points to a broadly neutral fiscal stance in Germany and France in 2018, while Spain and Italy ran expansionary fiscal policies (Graph 1.6). Digging into the budgetary composition of the DFE in large euro area countries, Germany and France show an increase in primary expenditure – net of one-offs and cyclical unemployment benefits – consistent with medium-term potential growth (see Table 1.2), entailing no fiscal impulse from expenditure policies in 2018, as in 2017. By contrast, in 2018 primary expenditure increased significantly above medium-term potential

⁽⁹⁾ It can be noted that the 'benchmark' nominal growth rates used in this framework reflect the weakness of the 10-year average potential growth estimates, which still incorporate lagged effects from the crisis, as well as the low inflation environment. In 2018, the lower potential growth used in the DFE explains part (around 0.15 pps. of GDP) of the more contractionary fiscal stance of this indicator compared with the fiscal stance measured through the change in the structural balance.

⁽¹⁰⁾ It should be noted that the headline expenditure-to-GDP ratio continued to decline in the euro area in 2018 (Graph 1.7). However, this was due to decreasing interest expenditure and favourable cyclical conditions, as GDP growth outpaced potential growth. The structural expenditure ratio has been broadly stable since 2016.

⁽¹¹⁾ On the revenue side, the DFE only takes into account the change in revenues related to discretionary measures (excluding one-offs), and thus it is not affected by revenue windfalls/shortfalls.

growth in Italy and in Spain, implying loose expenditure policies. ⁽¹²⁾ On the revenue side, discretionary tax policies were slightly contractionary in Italy, only partly compensating the expansionary policies on the expenditure side, and broadly neutral in Germany, Spain and France.

Table 1.2: Expenditure dynamics and medium-term potential GDP growth (% change)

	EA			DE			ES			FR			IT		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Primary expenditure growth (nominal)	2.3	3.3	3.4	3.5	3.7	5.2	2.5	4.2	4.1	2.1	1.9	0.5	1.0	2.7	2.1
Medium term potential growth (nominal) of which:	2.1	2.5	2.8	3.0	3.4	3.7	1.8	1.6	2.3	1.7	2.0	2.4	0.5	0.9	0.8
Medium term potential growth (real):	1.0	1.1	1.2	1.5	1.5	1.6	0.5	0.6	0.7	1.1	1.1	1.1	0.0	0.0	0.2
GDP deflator	1.1	1.4	1.6	1.5	1.9	2.1	1.2	1.0	1.6	0.7	0.9	1.3	0.5	0.8	0.7

Note: Primary expenditure is net of one-offs and cyclical unemployment expenditure.

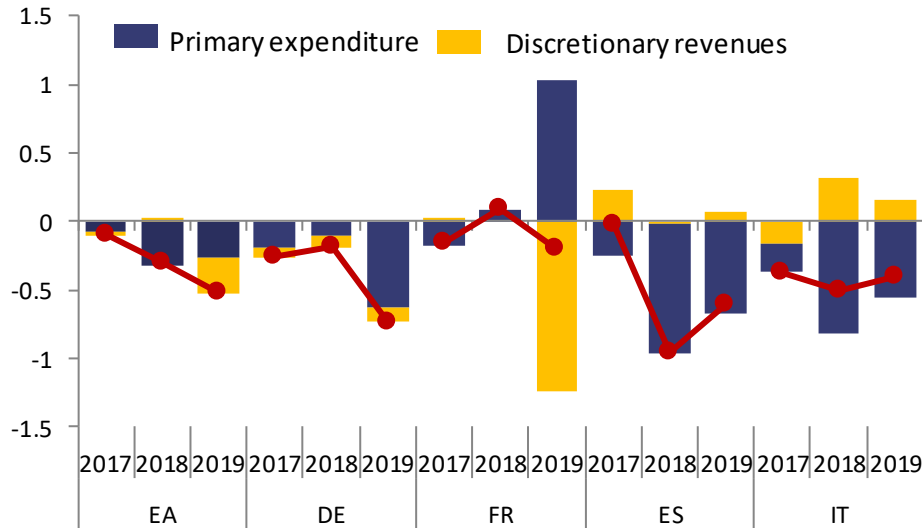
Source: European Commission 2019 spring forecast

The change in the structural balance, indicating a mildly contractionary euro area fiscal stance in 2018, appears to be distorted by interest savings and large revenue windfalls. Compared with the DFE, the 2018 structural balance benefited from lower interest expenditure, revenue windfalls, and a higher potential growth. More specifically, the ¼ pp. of GDP increase in the structural balance in 2018 was driven by a decline in interest expenditure of 0.1 pp. of GDP and a higher structural revenue ratio of 0.3 pps. of GDP (Graph 1.7). The increase in the latter is largely explained by revenue windfalls. ⁽¹³⁾ Part of these windfalls were however spent as shown by the 0.1 pp. of GDP increase in the euro area structural expenditure ratio. Looking at the geographical composition of the euro area fiscal stance, based on the change in the structural balance the fiscal stance appears to have been contractionary in Germany in 2018, largely due to significant revenue windfalls (0.7% of GDP) originated from a tax rich composition of economic growth. Spain also benefited from sizeable revenue windfalls in 2018 (0.7% of GDP), but the country did not improve its structural balance as those windfalls were spent. The fiscal stance was broadly neutral also in France, Italy and the Netherlands, based on the change in the structural balance.

⁽¹²⁾ According to the DFE, in 2018 the fiscal expansion due to primary expenditure increasing above medium-term potential growth was around ¾ pp. in Italy and 1 pp. in Spain. However, it should be noted that for Italy and Spain the 10-year medium-term potential growth used in the DFE for 2018 (0.0% and 0.6% respectively) is significantly lower than the point estimate of real potential growth for that year (0.5% and 1.2% respectively).

⁽¹³⁾ In 2018, in the euro area revenues - net of discretionary measures - increased more than nominal GDP, pointing to revenue windfalls of around 0.3% of GDP.

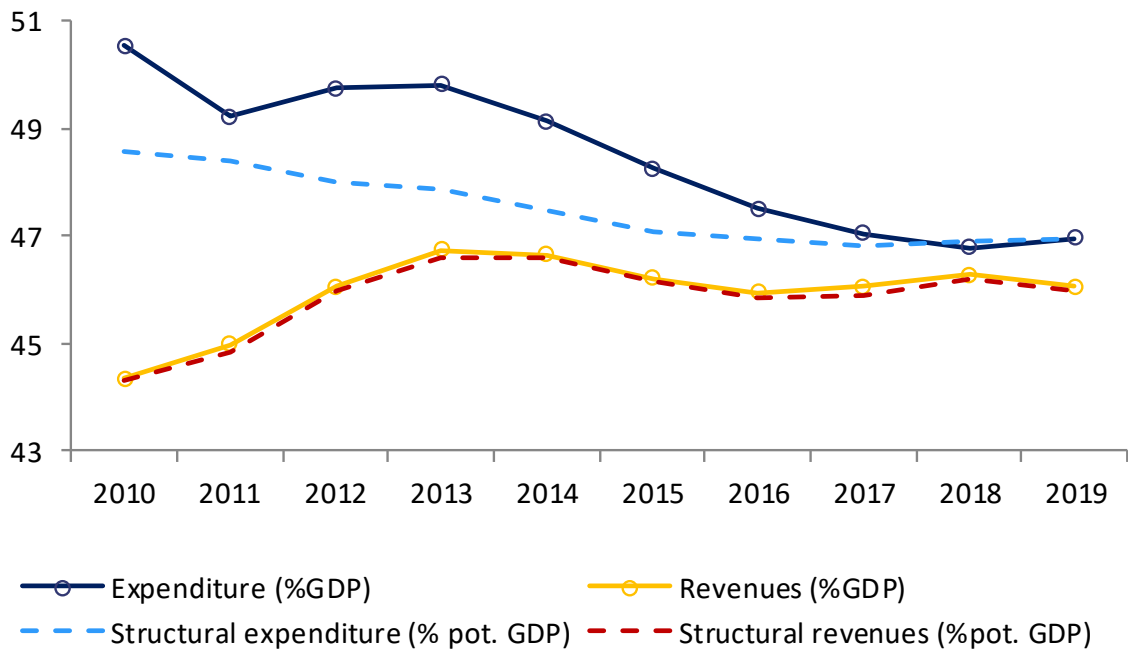
Graph 1.6: Discretionary fiscal effort 2017-2019 (% of GDP)



Note: The impact on the DFE of primary expenditure and discretionary revenues is net of one-offs. Primary expenditure is also netted of cyclical unemployment benefits. In 2019, data for France are affected by the reform of CICE (crédit d'impôt pour la compétitivité et l'emploi). As of 2019, CICE has been transformed into a permanent decrease in social contribution, implying lower discretionary revenues. At the same time, subsidies to firms have been reduced, implying lower permanent primary expenditure. Excluding the CICE reform, the impact of primary expenditure on the DFE of France would be reduced to 0.1 pp of GDP (from 1 pp.), while discretionary revenues would provide a contribution of -0.3 pps. of GDP (from -1.2 pps.)

Source: European Commission 2019 spring forecast

Graph 1.7: Expenditure and revenues developments

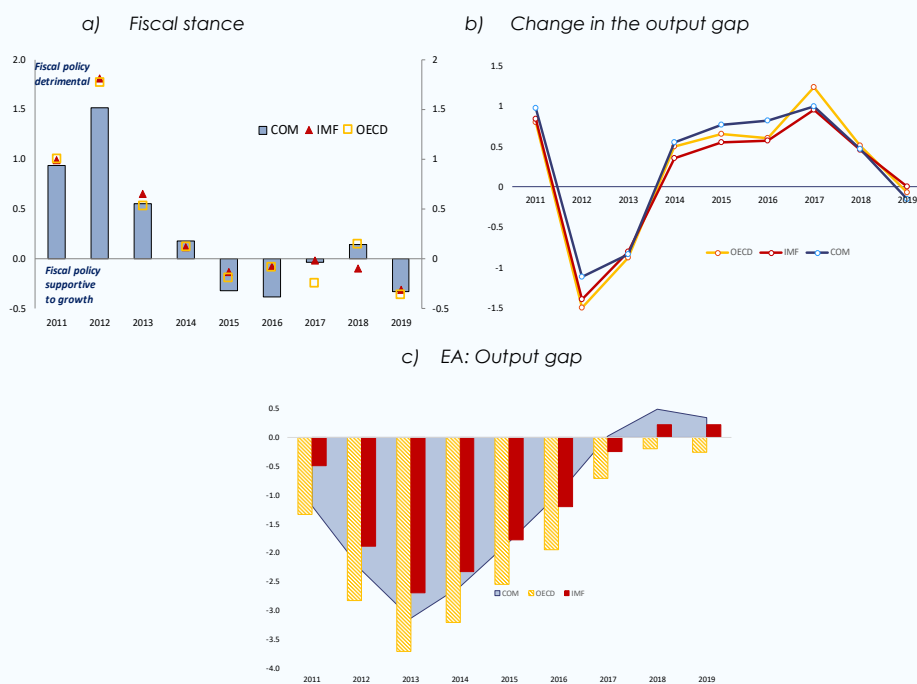


Source: European Commission 2019 spring forecast

Box 1.2: Euro area fiscal stance according to IMF, OECD and European Commission

Using the change in the structural primary balance ⁽¹⁾ as a measure to assess the euro area fiscal stance, developments over the horizon 2011-2019 are presented in this Box according to the IMF, OECD ⁽²⁾ and Commission most recent forecasts. A consensus is found on the sign ⁽³⁾ of the fiscal policy stance all over the period as well as in gauging the sign of the output gap up to 2017 (Graph 1 a and c). Minor discrepancies are observed when looking at the size of the fiscal stance as well as the change in the output gap. In terms of slacks, instead, on average, OECD estimates appear more optimistic about the level of potential GDP (+0.6 pps. on average over the period) while minor differences emerge when considering IMF data (-0.2 pps. on average over the period).

Graph 1: Euro area fiscal stance and drivers according to IMF, OECD and Commission (2011-2019)



Source: European Commission on OECD Economic outlook May 2019, IMF World economic outlook April 2019 and Commission 2019 spring forecast

After the contractionary and pro-cyclical fiscal policy experienced in 2011-2013, according to the IMF and the OECD the fiscal stance turned broadly neutral in the following five years (2014-2018). The largest differences compared with the fiscal stance based on Commission data are in 2012, when the IMF and OECD estimate a more contractionary stance, and in 2016, when the Commission fiscal stance is more expansionary. Broad agreement is found again for 2019 when all the three forecasters project a slightly expansionary stance (-0.31 pps. of GDP for the IMF; -0.33 pps. for the European Commission and -0.36 pps. for the OECD).

When looking at the average differences at country level in the period 2011-2019, the largest divergences between the Commission and the IMF and the OECD relate to ES and, to a lesser extent, NL (Graph 2a).

⁽¹⁾ For comparability reasons the measure for fiscal stance used by the IMF and the OECD is presented here.

⁽²⁾ Because of missing data for 5 countries (MT, CY, LV, LT and SK), OECD euro area refers to 14 countries.

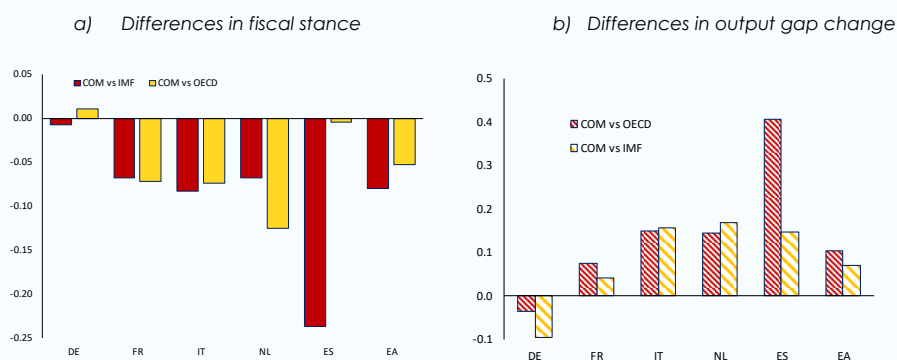
⁽³⁾ Except in 2018; however, in that year, the fiscal stance remains in the broadly neutral range (-0.2 pps. / + 0.2 pps. of GDP) for the three forecasters.

(Continued on the next page)

Box (continued)

These divergences can be largely explained by the different estimates about the change in the output gap in the period 2011-2019 (Graph 2b).

Graph 2: Fiscal stance and drivers according to IMF, OECD and Commission: a country perspective
 (average differences in 2011-2019)



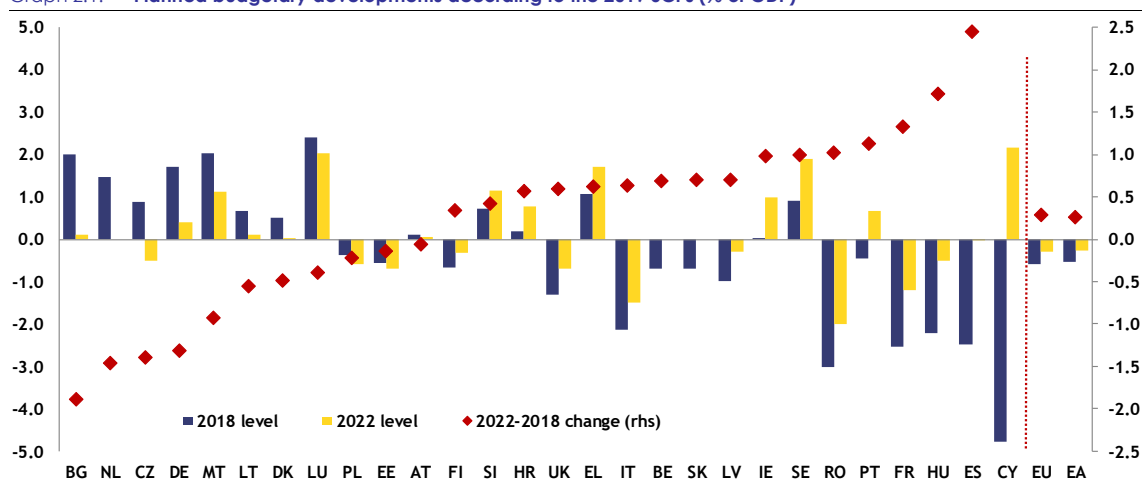
Source: European Commission on OECD Economic outlook May 2019, IMF World economic outlook April 2019 and Commission 2019 spring forecast

2. BUDGETARY PLANS FOR 2019 AND BEYOND

2.1. DESCRIPTION OF PLANNED BUDGETARY DEVELOPMENTS

The aggregate budget balance is planned to increase in the EU and the euro area by 0.3 pps. of GDP between 2018 and 2022 to reach a deficit of 0.3% of GDP in 2022 (Graph 2.1). By contrast, starting from a lower budget balance than actually achieved in 2018 (see Table 1.1), last year's Stability and Convergence Programmes (SCPs) planned a surplus of 0.2% of GDP in the EU and 0.5% in the euro area to be reached already in 2021. The planned improvement in the budget balance is backloaded, as a deterioration of about 0.3 pps. of GDP is projected in 2019. All Member States that notified deficits in 2018 plan to improve the headline position by 2022, except EE and PL. Member states that had reached a surplus in 2018 often plan to reduce it (except SI, HR, EL and SE), some of them to a balanced budget (NL, DK, AT) or even a deficit (CZ).

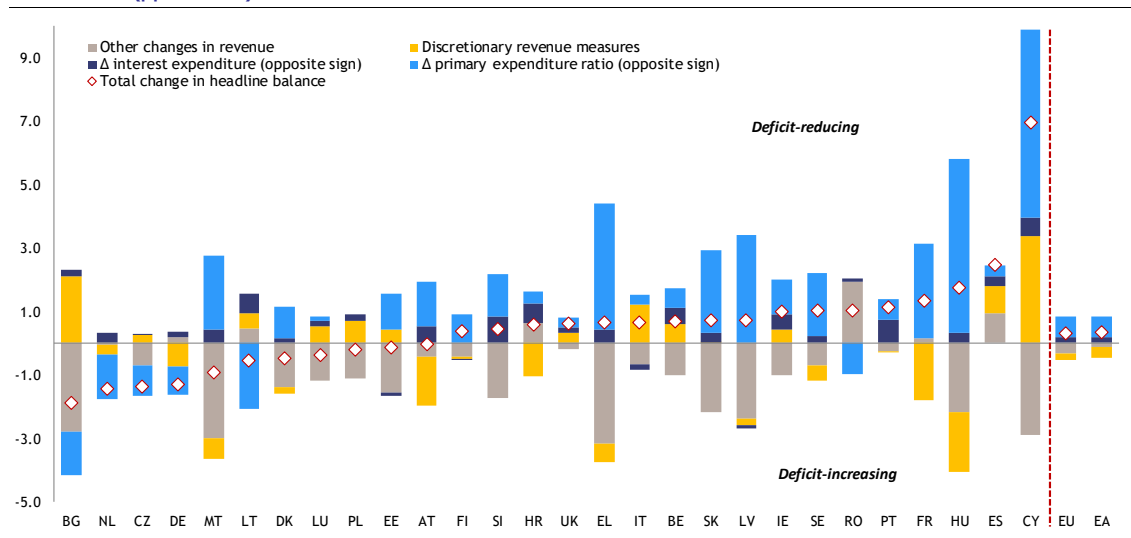
Graph 2.1: Planned budgetary developments according to the 2019 SCPs (% of GDP)



Note: The graph shows the headline budget balance in 2018 and 2022 according to the 2019 SCPs, and the change planned between 2018 and 2022. For CY the change in the budget balance (+6.9 pps. of GDP) falls outside the scope of the graph.
Source: European Commission based on 2019 SCPs

The slight increase in the aggregate headline balance over the programme horizon results from a planned reduction in the primary expenditure ratio, which more than offset the decline in the revenue ratio (Graph 2.2). Specifically, the primary expenditure ratio is planned to decline by around 0.7 pps. of GDP in both the EU and the euro area by 2022. This decline is driven by positive cyclical conditions, as real GDP growth is projected to outpace (medium-term) potential growth. The projected drop in interest expenditure (of around 0.2 pps. of GDP between 2018 and 2020) would also contribute to the fiscal adjustment. At the same time, the revenue ratio is projected to fall by around 0.5 pps. of GDP, with only 0.2 pps. explained by the reported discretionary measures. This could imply that further revenue decreasing measures need to be specified.

Graph 2.2: **Composition of the adjustment of the headline balance between 2018 and 2022, as planned in the 2019 SCPs (pps. of GDP)**



Note: 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: European Commission based on 2019 SCPs

Looking at the planned evolution of the (recalculated) structural balance⁽¹⁴⁾, Member States' plans would result in a worsening of the aggregate structural balance in 2019, followed by a slight tightening in 2020-2022 (Graph 2.3). These developments show significant revisions of the plans compared to the 2018 SCPs. Specifically, the structural balance is expected to worsen by around 0.2 pps. of GDP in both the EU and the euro area in 2019, while it was planned to improve by 0.3 pps. of GDP in last year's programmes. The planned structural improvement has been more than halved in 2020-2021 compared to the 2018 SCPs, from 0.7 pps. of GDP to 0.3 pps. in the EU and 0.2 pps. in the euro area. In 2022, the structural balance is planned to improve, however, remain in deficit, at 0.5% of GDP in the EU and 0.6% in the euro area. A detailed discussion of the fiscal stance in the euro area, based both on the Commission 2019 spring forecast and on the 2019 SCPs, is provided in subsection 2.2.

For euro area Member States, a comparison of 2019 macroeconomic and budgetary projections between the SPs and the DPBs can be found in Box 2.1.

Most Member States plan to move in the direction of their MTO or to remain at or above it (Graph 2.4). All Member States that were below their MTO in 2018 plan to increase their structural balance by 2022, except EE.⁽¹⁵⁾ In the 2019 SCPs, Member States have set their MTO for 2020-2022 in line or above the new minimum MTO (Box 2.3). The planned structural effort in some Member States that had high structural deficits in 2018 (ES, FR, IT and RO) is not sufficient to reach their MTO by 2022, while HU plans to achieve the MTO. All Member States at or above the MTO in 2018 intend to remain above it in 2022, though a majority of them plan a fiscal expansion over the SCP horizon. By the end of the programme horizon, 23 Member States plan to have reached the MTO or to be in its vicinity, (within 0.25% of GDP distance) – see also Box 2.2.

⁽¹⁴⁾ Recalculated by the Commission based on the information provided in the programmes according to the commonly agreed methodology.

⁽¹⁵⁾ This is based on the recalculated structural balances. For EE, at face value the Stability Programme shows an improvement in the structural deficit from 1.4% of GDP in 2018 to 1.0% in 2019, 0.8% in 2020-2022 and 0.1% in 2023. Anyway, the Stability Programme is based on unchanged policy.

Box 2.1: Comparison with the Draft Budgetary Plans of euro area Member State

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 spring and the submission of Draft Budgetary Plans (DBPs) in autumn. While the latter concerns only the following year, the SPs contain the authorities' medium-term fiscal strategies. However, the two fiscal documents overlap for one year, 2019 in this case. The information contained in the SPs for 2019 is thus an update of Member States' plans as presented to their euro area peers last autumn. This box compares the macroeconomic outlook and budgetary targets for 2019, as presented in the most recent DBPs and SPs. In the case of LV, LU and SI, data from a no-policy-change DBPs as submitted in October 2018 is used.

The 2019 growth outlook for the euro area has been revised downwards since last autumn (Table 1), with real GDP growth now projected at 1.4% compared to 2.0% in the DBPs. The GDP deflator is now expected at 1.4% in 2019 (compared to 1.8% in the DBPs). The downward revision of the growth outlook is accompanied by a slight downward revision in the change of the headline balance (-0.2 pps. of GDP). The planned fiscal effort based on the expenditure benchmark is now slightly more negative (to -0.4 pps. from -0.3 pps. of GDP), while the change in the structural balance is similar.

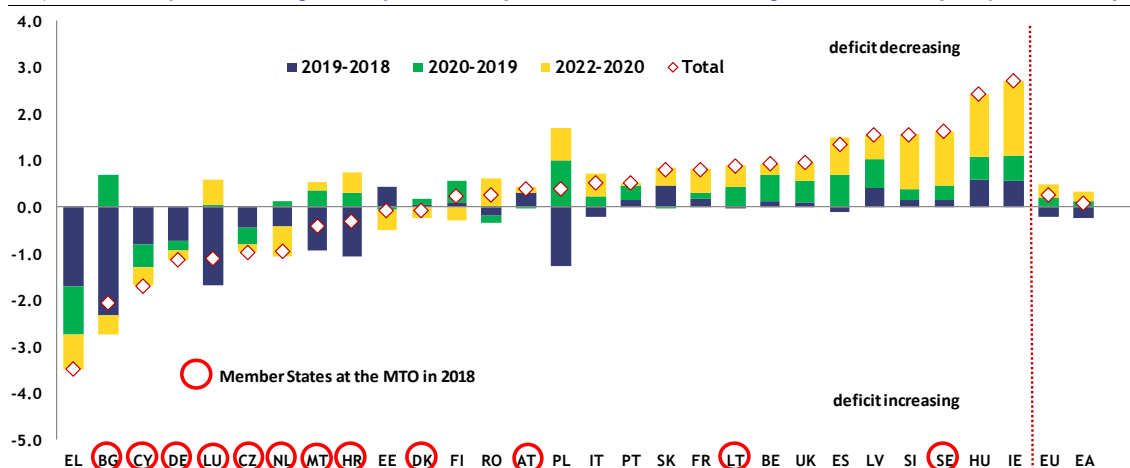
Table 1: Revision of selected indicators in 2019: SPs vs DBPs

	Real GDP growth	GDP deflator growth	Change in Headline balance	Change in structural balance	Fiscal effort based on EB
BE	-0.2	0.0	-0.2	-0.1	0.3
CY	-0.2	-0.3	7.6	-0.2	-3.6
DE	-0.8	0.4	-0.2	-0.1	0.0
EE	0.1	-0.4	0.4	0.4	0.8
EL	-0.2	-0.2	0.3	0.1	-1.1
IE	-0.3	-0.4	0.1	0.8	0.2
ES	0.0	-0.2	-0.5	-0.5	-0.8
FR	-0.3	-0.1	-0.4	0.0	-0.4
IT	-1.3	-0.6	0.3	0.7	0.3
LV	0.2	0.0	0.4	0.4	-0.6
LT	-0.2	-0.3	-0.1	0.0	0.2
LU	-1.0	-0.2	-1.3	-1.3	0.0
MT	0.9	0.7	-1.3	-1.2	-0.6
NL	-1.1	-0.3	-0.5	0.1	0.1
AT	-0.3	-0.1	-0.2	-0.2	-0.3
PT	-0.3	0.1	-0.2	0.0	0.0
SI	-0.3	0.4	0.6	0.9	0.4
SK	-0.5	0.1	0.2	0.3	-0.4
FI	0.0	-0.1	-0.3	-0.2	-0.6
EA	-0.6	-0.3	-0.2	0.0	-0.1

Note: The table shows the amount of revisions in real GDP and deflator growths (pps.) and in selected fiscal indicators (pps. of GDP). In CY, the planned improvement in the headline balance has been raised from 0.2 pps. of GDP in the DBP to 7.8 pps. in the SP due to large one-offs in 2018.

Source: European Commission based on 2019 SPs and 2019 DBPs

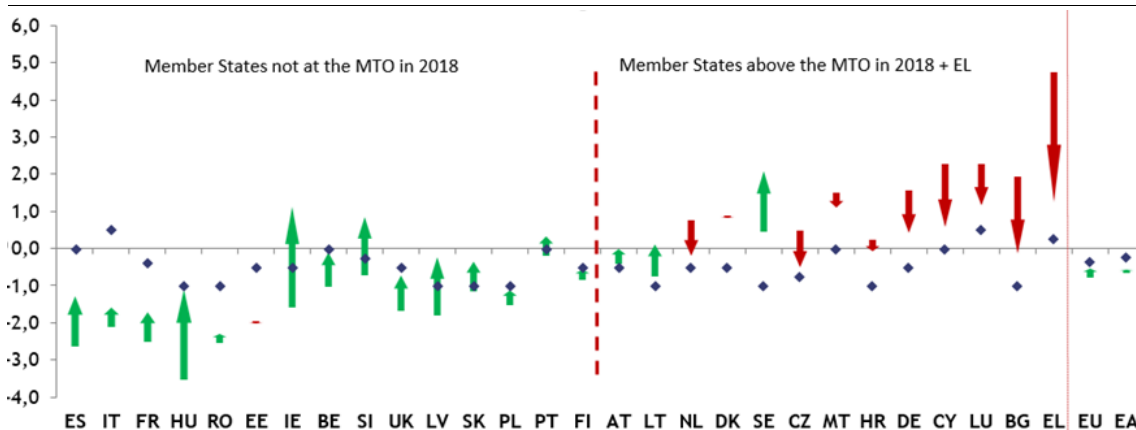
Graph 2.3: The planned change in the (recalculated) structural balance according to the 2019 SCPs (% of potential GDP)



Note: The graph shows the change in the structural balance: in 2019, 2020, over the period 2021-2022 and over the entire period 2019-2022, according to the 2019 SCPs. Countries are ordered from the smallest to the largest cumulative change in the structural balance over the entire period 2019-2022. Countries in the circle were at or above the MTO in 2018. The structural balance in EL was 5% of potential GDP in 2018; however the country has nominated its first MTO after exiting the ESM Stability Support Programme in the 2019 SP (+0.25%; valid from 2020).

Source: European Commission based on 2019 SCPs

Graph 2.4: Progress towards the MTO throughout the programme horizon



Notes: 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 2018 based on the SCPs, while the tip of the arrow represents the projected (recalculated) structural balance in 2022. 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 set for 2020 that is assumed to remain unchanged until 2022. For the euro area and the EU, an aggregate 'MTO' were calculated as weighted averages of country-specific MTOs. Member States are ranked according to their distance to the MTO in 2018.

* The UK has not set an MTO. The graph shows the country's minimum MTO instead.

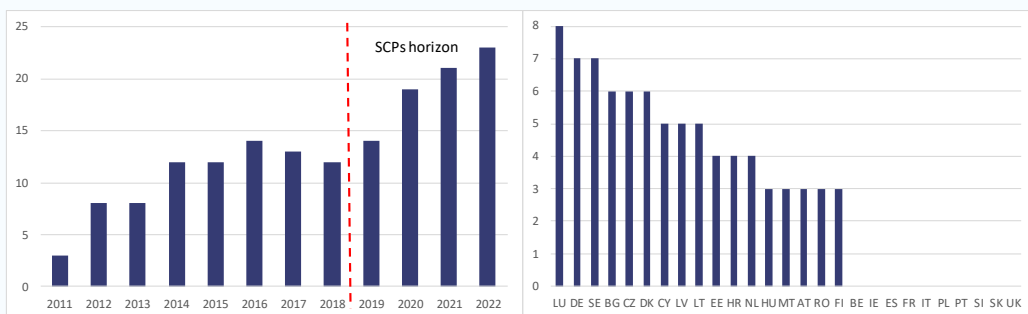
Source: European Commission based on 2019 SCPs

Box 2.2: Progress towards the MTO

The number of Member States close to or above the MTO increased strongly over the period 2011-2018, yet 10 Member States have not reached the MTO a single time. The number of Member States close to or above the MTO increased from 3 in 2011 to 12 in 2018, with the peak of 14 in 2016 (Graph 1a). While 12 Member States were at least half of the time close to or above the MTO over the period 2011-2018, 10 Member States had not reached the MTO a single time (Graph 1b).

Graph 1: Progress towards the MTO

a) No. of countries close to or above the MTO b) No. of years close to or above the MTO in 2011-2018

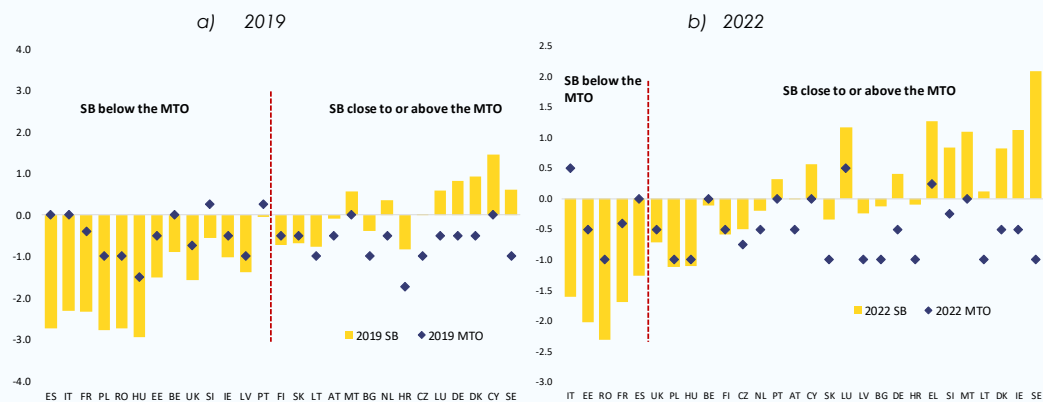


Notes: EL is included in the graph from 2020 onwards. Member States are considered to be close to the MTO if the distance to it does not exceed 0.25% of GDP.

Source: European Commission and 2019 SCPs.

According to 2019 SCPs, the number of Member States close to or above the MTO is planned to increase from 14 in 2019 (Graph 2a) to 23 by 2022 (Graph 2b). The progress towards the MTO is planned to be uneven across Member States. Member States that reached or exceeded the MTO at least once over 2011-2018 plan to be close to or above the MTO at least three times over the period 2019-2022 (except HU, RO and EE). Conversely, three large Member States that were not a single time at the MTO over 2011-2018, plan to remain below the MTO also over the programme horizon (ES, FR, IT).

Graph 2: The MTO and the structural balance in 2019 and 2022



Notes: EL is included in the graph from 2020 onwards. Member States are considered to be close to the MTO if the distance to it does not exceed 0.25% of GDP.

Source: European Commission and 2019 SCPs

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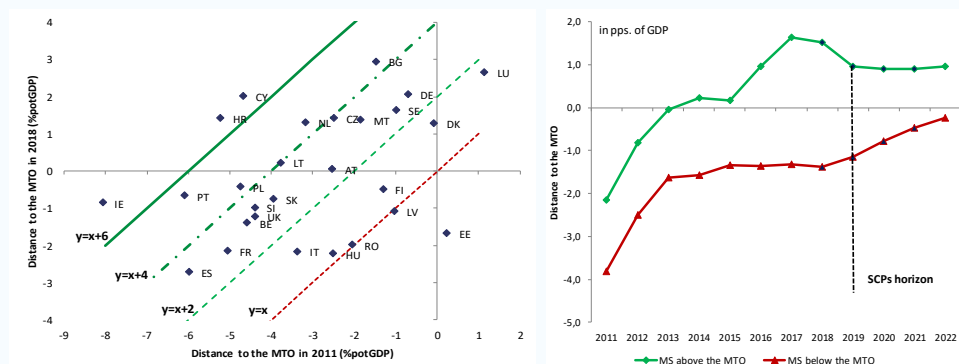
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20 Member States made an effort towards the MTO of more than 2 pps. of GDP between 2011 and 2018. This effort was sufficient for 10 Member States to move from below the MTO to close to or above the MTO in 2018. LU and DK stayed close to or above the MTO in 2011 and 2018 (Graph 3a). No or a very limited effort towards the MTO was made by LV, HU, RO, IT and FI, while EE reduced the structural balance, remaining below its MTO since 2016. An effort of more than 6 pps. of GDP was implemented by IE, CY and HR.

Graph 3: Distance to the MTO

a) Change between 2011 and 2018

b) Change by groups of Member States



Notes: In panel b), the two groups of Member States are formed according to the structural balance position vis-a-vis the MTOs in 2018 using the unweighted average. Member States that are included into the green group (i.e. at or above the MTO in 2018) are BG, CZ, DE, EL, HR, CY, LT, LU, MT, NL, SE, DK and AT, while Member States in the red group (i.e. below the MTO in 2018) are PL, FI, IE, EE, SK, BE, HU, SI, UK, FR, IT, PT, RO, ES and LV.

Source: European Commission and 2019 SCPs

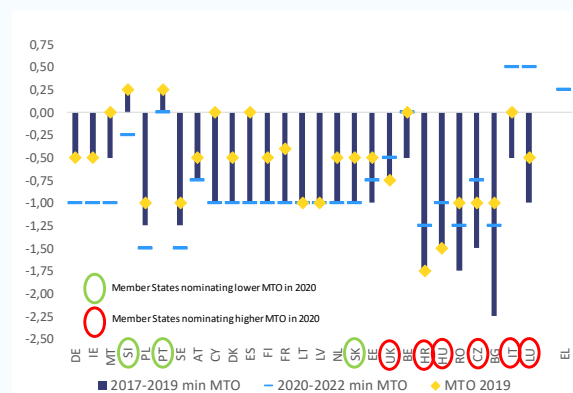
Member States that were at the MTO in 2018 have gradually increased the gap in the structural balance position compared to the groups of Member States that were not at the MTO in 2018 (Graph 3b). This group achieved most of the structural effort over 2011-2013 and 2015-2017. Member States that were below the MTO in 2018 more than halved the distance to the MTO between 2011 and 2013. Since then, their progress towards the MTO has been limited or absent. According to the SCPs, both groups plan to be at least close to the MTO by the end of the SCP horizon. The strongest improvement in the structural balance is planned in the group below the MTO in 2018 while the group above the MTO plans to reduce the structural balance, yet remain well above the MTO.

Box 2.3: Update of the minimum MTO

The minimum MTOs were recently updated based on the new set of long-term budgetary projections published in 2018. ⁽¹⁾ According to the Regulation (EC) 1466/97, the minimum MTO should be revised every three years, after the publication of the “Ageing Report” that provides up-to-date data on the ageing challenge facing Member States. The recently updated minimum MTOs will apply for the period 2020-2022. Compared to the current set of minimum MTOs, the new minimum MTO calculation yields the same outcome for 10 Member States (AT, CY, DK, ES, FI, FR, LT, LV, NL and SK) - Graph 1. For 10 Member States the new values are more stringent. This is either due to higher costs of ageing (BE, BG, CZ, IT, LU, HU and UK) or the increase in the minimum benchmark (EE, HR and RO). For 7 Member States the minimum MTOs are less stringent (DE, IE, MT, PL, PT and SI and SE) due to the lower debt ratios. In the case of EL, the computation of the minimum MTO for 2020-2022 is the first after the country exited the ESM Stability Support Programme.

Nine Member States changed the MTO for 2020-2022, eight as a response to the minimum MTO update. The minimum MTO represents a lower bound for the MTO that Member States have to respect in order to be considered compliant with the SGP. Member States nominated their MTOs for the period 2020-2022 in the 2019 Stability and Convergence Programmes (SCPs). Five Member States (UK ⁽²⁾, HU, CZ, IT and LU) nominated stricter MTOs due to the upward revision of the minimum MTOs and one Member State (HR) increased its MTO, also to fulfil the ERMII entry condition. The downward revision of the minimum MTO had an impact on two Member States (SI, PT) while one Member State reduced the MTO to the minimum MTO despite no change in the updated minimum MTO (SK).

Graph 1: Update of the minimum MTO



Notes: Member States are ranked according to the change in the minimum MTO, from the largest reduction to the largest increase. The computation of EL minimum MTO for 2020-2022 is the first after EL exited the ESM Stability Support Programme. EL nominated for the first time its MTO in 2019 Stability Programme.

Source: European Commission based on 2019 SCPs

⁽¹⁾ The 2018 Ageing Report: Economic and Budgetary Projections for the EU Member States (2016-2070).

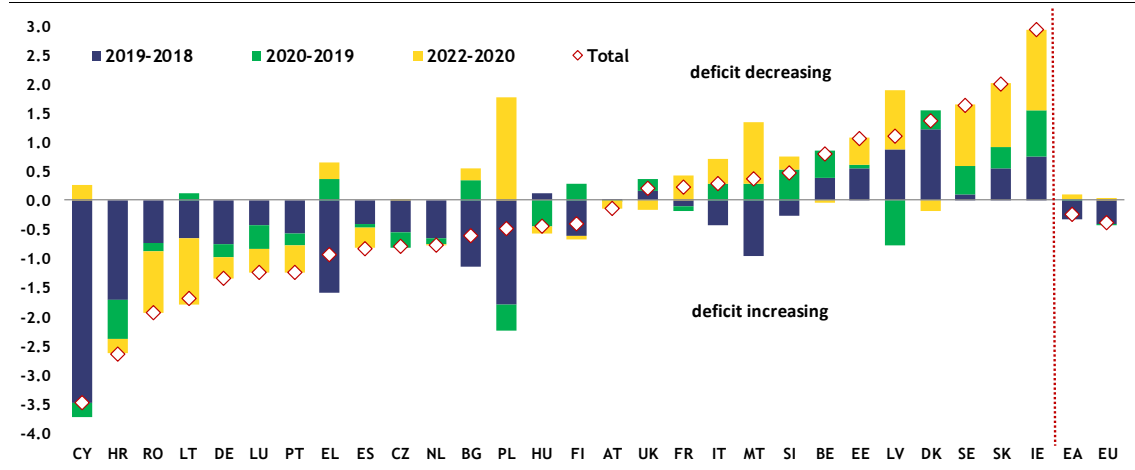
⁽²⁾ The UK has never set in the Convergence Programmes its MTO so the minimum MTO has always been considered.

At aggregate level, the planned developments in the expenditure benchmark point to a negative fiscal effort in 2019, followed by a neutral stance in 2020-2022 (Graph 2.5). The projections for primary expenditure - net of discretionary revenues - put forward in the programmes imply a negative fiscal effort in both the EU and in the euro area in 2019 (of -0.3 pps. and -0.4 pps. of GDP respectively). The main negative contribution comes from the planned increase in primary expenditure outpacing medium-term nominal potential growth. At the same time, the SCPs project some discretionary tax cuts in 2019 (Graph 1.6). In 2020, the fiscal effort based on the expenditure benchmark is projected at zero in

both the EU and the euro area, as the planned increases in taxes would offset the negative impact of primary expenditure growing more than medium-term potential growth. In 2021-2022, the planned developments in primary expenditure and discretionary revenue reverse again, but the expenditure benchmark continues to point to a fiscal effort close to zero in both the EU and the euro area thanks to the primary expenditure restraints offsetting the planned tax cuts.

At country level, nine Member States plan a positive fiscal effort in 2019, based on the expenditure benchmark (Graph 2.5). However, the expenditure benchmark indicates a planned negative fiscal effort, or no effort, in some highly-indebted countries that have not achieved the MTO (ES, FR, IT and PT) as well as in a high-deficit country like RO. For 2020, the expenditure benchmark points to a positive fiscal effort in 14 Member States, but the fiscal effort is planned to be slightly negative in ES, FR and PT. Over the entire 2019-2022 programme period, 12 Member States plan a positive fiscal effort based on the expenditure benchmark, with the largest positive fiscal effort projected in IE and SK.

Graph 2.5: **The fiscal effort based on the expenditure benchmark planned in 2019-2021 in the EU Member States according to the 2019 SCPs (% of GDP)**



Note: in 2019, for CY, the difference between the fiscal effort based on the expenditure benchmark (-3.7% of GDP) and the change in the structural balance (-0.8 pps. of GDP) is largely explained by sizeable one-offs that increased Gross Fixed Capital Formation (GFCF) in 2018. While in both indicators one-offs are netted out in the year in which they occur (2018 in this case), in the expenditure benchmark GFCF is smoothed over four years implying lower expenditure net of one-offs in 2018 and higher in 2019 compared with those used in the structural balance.

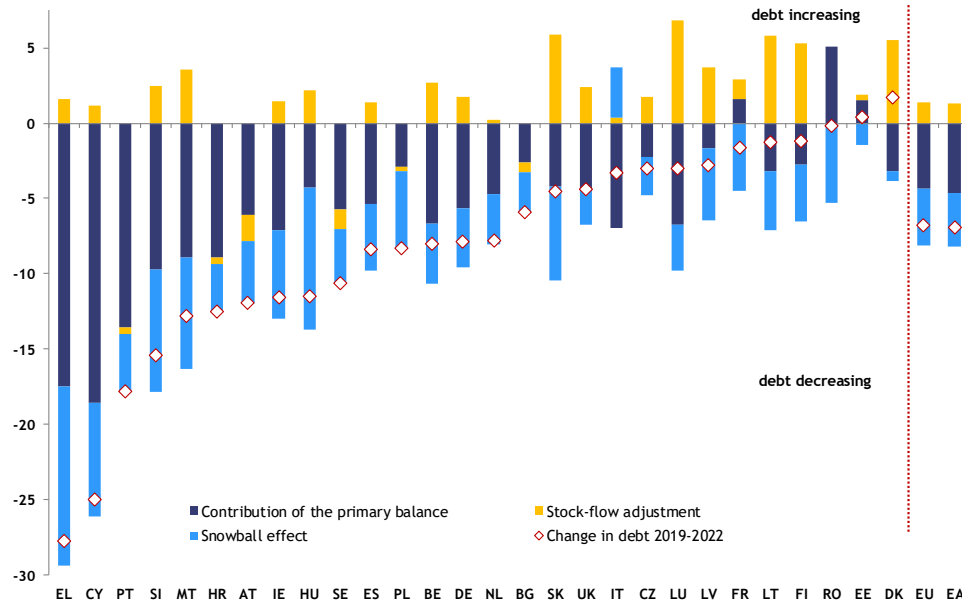
Source: European Commission based on 2019 SCPs

Based on the 2019 SCPs, the aggregate debt-to-GDP ratio would decline by around 7 pps. between 2018 and 2022 (Graph 2.6). The EU public debt would fall to around 75% of GDP in 2022, while for the euro area the debt ratio would be around 80%. The decline in the debt ratio would be driven by the planned primary surpluses and a favourable growth-interest differential, resulting in a debt-reducing snowball effect. At country level, debt reductions larger than 10 pps. of GDP are planned in 10 Member States (EL, CY, PT, SI, MT, HR, AT, IE, HU and SE). A large decline in the debt ratio is also projected in DE and NL. A debt-decreasing snowball effect is projected in all Member States but Italy, while the accumulation of primary deficits would have a debt-increasing impact in 3 Member States (FR, RO and EE). The number of Member States with a debt ratio above 60% of GDP would fall from 14 in 2018 to 10 in 2022. Among the 10 countries that project a debt above 60% of GDP in 2022, FR and IT do not plan to reduce the gap to the 60% ceiling by at least 1/20th per year on average over the programme period. In 2022, debt ratio would remain above 100% of GDP in EL (153%), IT (129%) and PT (104%).

All Member States with a debt ratio above 60% of GDP and not at the MTO in 2018 plan some structural adjustment (Graph 2.7), although such adjustment is not always correlated to the size of the debt ratio.

The planned structural adjustments for 2020 in BE, ES, FR, IT and PT fall short of what the S1 sustainability indicator would suggest (Graph 2.11).

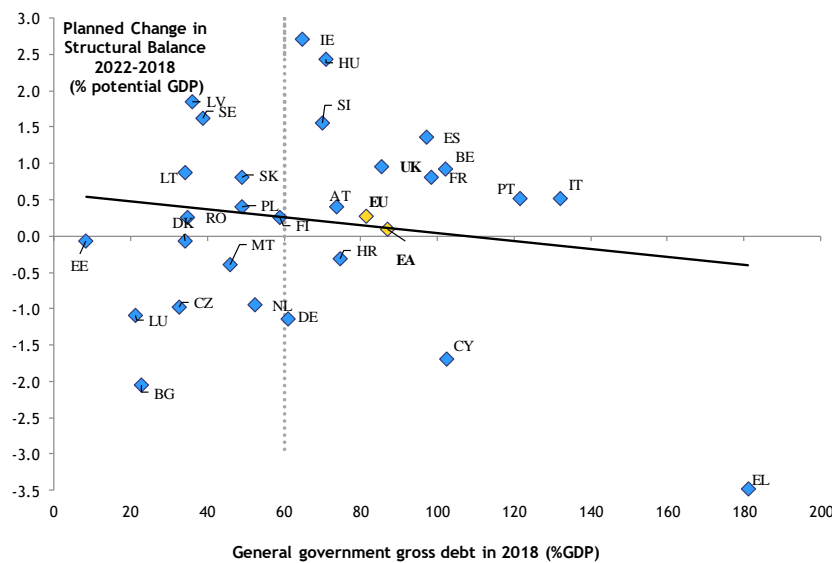
Graph 2.6: Contributions to the change in the debt-to-GDP ratio between 2018 and 2022, as planned in the 2019 SCPs (pps. of GDP) The S2 sustainability gap: 'COM no-policy-change' and 'SCP' scenarios (in pps. of GDP)



Note: The graph disaggregates the 2019-2022 change to Member States debt-to-GDP ratios between the contributions of the primary balance, stock-flow adjustments and the snowball-effect (i.e. due 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: European Commission based on 2019 SCPs

Graph 2.7: Debt level in 2018 vs planned change in structural budget balance in the period 2019-2022



Source: European Commission based on 2019 SCPs

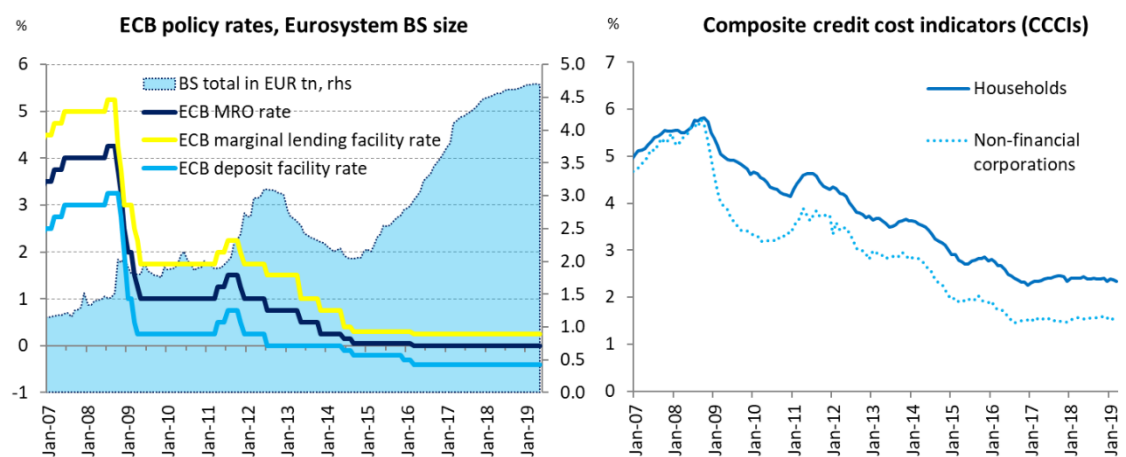
2.2. ASSESSMENT OF THE EURO AREA FISCAL STANCE

This section analyses the euro area fiscal stance in the context of the broader policy mix. Specifically, Section 2.2.1 describes the euro area fiscal stance in 2019 based on the Commission 2019 spring forecast and the monetary policy stance. Section 2.2.2 discusses of the appropriate fiscal stance for the euro area in 2020, based on cyclical stabilisation and medium-term sustainability needs. Section 2.2.3 assesses the fiscal stance emerging from the Stability Programmes.

2.2.1. Description of the monetary policy stance and fiscal stance in 2019

Monetary policy in the euro area remains highly accommodative (Graph 2.8). At its March and June meetings, the ECB Governing Council reacted to the continued economic slowdown and further declines in medium-term inflation expectations. Although policy rates were left unchanged, the ECB extended the date-contingent part of its rate forward guidance by one year over the two meetings, now expecting that key ECB interest rates “remain at their present levels at least through the first half of 2020 [...]”. As a result, EONIA forward-based expectations of a first ECB policy rate hike were pushed out considerably, and in fact markets now even price in a rate cut over the coming months. At the time of writing they implied 10 bps lower rates by September 2019 and a return to current levels only by 2022. While the forward guidance on full reinvestments of maturing APP securities was kept unchanged, its link to a first policy rate hike⁽¹⁶⁾ implies a parallel extension of reinvestment expectations, ensuring that the APP effects on long-term yields stay in place. The Governing Council furthermore in March announced a new series of quarterly targeted longer-term refinancing operations (TLTRO-III), starting in September 2019 and ending in March 2021, each with a maturity of two years. With respect to the policy outlook, the Governing Council renewed its pledge that it “stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council’s inflation aim in a sustained manner” and emphasized its determination to act in case of adverse contingencies.

Graph 2.8: Monetary policy stance in the euro area



Source: ECB, Macrobond, Bloomberg, European Commission calculations

⁽¹⁶⁾ The forward guidance on reinvestments states that they are expected to continue in full “for an extended period of time past the date when [the Governing Council] starts raising the key ECB interest rates”

The accommodative monetary policy stance is expected to keep financing conditions favourable in the euro area. Developments in credit costs have been overall very muted in the euro area over the past quarters, with the composite credit cost indicators (CCCI) for households and non-financial corporations remaining near their all-time lows. While credit costs for households have moved sideways for the past year, non-financial corporations' credit costs actually increased slightly until January. This reflected offsetting movements by medium- and long-term loans, which decreased in line with long-term money market rates, and increasing corporate bond yields due to higher risk premia. This upward trend, however, was reversed thereafter, when corporate bond yields declined considerably, resulting in a broadly unchanged CCCI for non-financial corporations compared to mid-2018. Looking ahead, ECB forward guidance on policy rates suggests low short-term rates for some time, while the associated continued reinvestment of maturing securities purchased under the Expanded Asset Purchase Programme (EAPP) in combination with the high overall stock of assets on the Eurosystem's balance sheet should ensure that nominal long-term rates stay low as well. This is also reflected in money market forward rates, which suggest nominal long-term rates to pick up only modestly over the coming two years and to remain well below levels reached at the end of 2018.

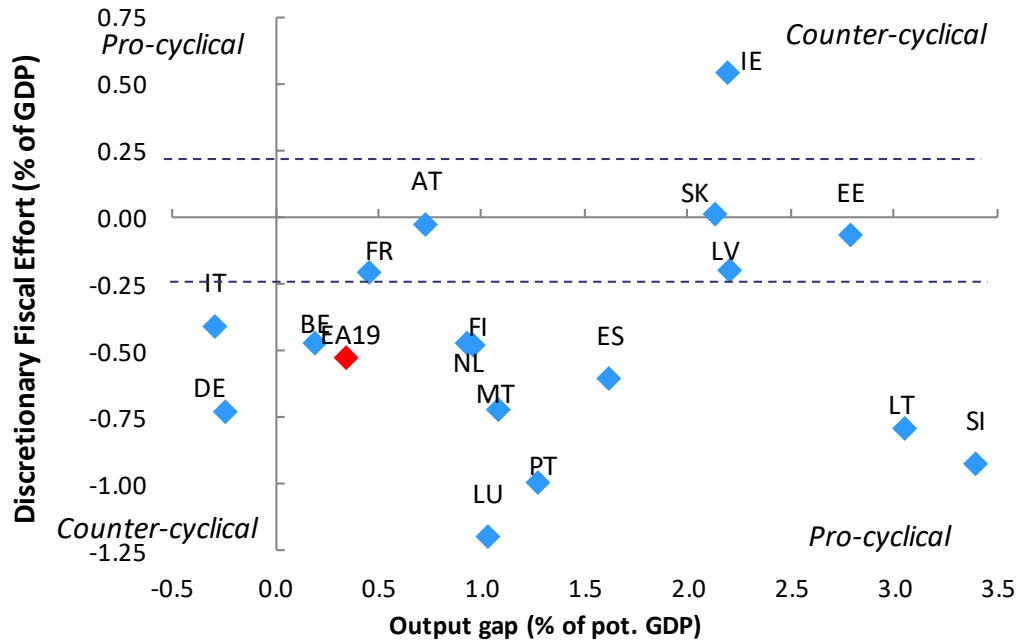
The Commission 2019 spring forecast projects an expansionary euro area fiscal stance in 2019. More specifically, in 2019 the euro area fiscal stance appears to be expansionary when looking at the DFE, with an overall fiscal impulse of around $\frac{1}{2}$ pp. of GDP (Graphs 2.9). The expansionary fiscal impulse from primary expenditure – net of one-offs and cyclical unemployment benefits – would be around $\frac{1}{4}$ pp. of GDP in 2019, as it is set to increase more than medium-term nominal potential growth (by 3.4% as against 2.8% - Table 1.3). A similar fiscal impulse is expected on the revenue side due to discretionary tax cuts (Graph 1.6). The worsening of the structural balance, by around $\frac{1}{4}$ pp. of GDP, points to a mildly expansionary fiscal stance in 2019 (Graph 1.5).⁽¹⁷⁾ This result is confirmed also by the ECB (Economic Bulletin, Issue 4, 2019) The combination of accommodative monetary policy and slightly expansionary fiscal stance is supporting the euro area economy in a context of a weaker external demand.

In terms of geographical composition, most euro area countries would run an expansionary fiscal stance based on the DFE in 2019. The DFE points to an expansionary fiscal stance together with a positive output gap in 10 euro area Member States (Graph 2.9). Looking at the 5 largest countries, the fiscal stance is projected to be broadly neutral in France, slightly expansionary in Italy and expansionary in Spain, Germany and the Netherlands.⁽¹⁸⁾ The fiscal expansion in Germany appears to be counter-cyclical, given that, despite the fiscal expansion, real GDP growth is forecast to be significantly lower than potential growth and the output gap is estimated to turn marginally negative.

⁽¹⁷⁾ Around half of the $\frac{1}{4}$ pp. of GDP difference between the DFE and the change in the structural balance in 2019 is explained by the projected revenue windfalls in the Commission 2019 spring forecast. The remainder is mainly due to the lower real potential growth used in the DFE (1.2% as against 1.3%).

⁽¹⁸⁾ Based on the structural balance, in 2019 nine euro area countries would run a broadly neutral fiscal policy stance, as their change in the structural balance would fall in a range between -0.2 pps. and +0.2 pps. of potential GDP, combined with a positive output gap. As for the five largest euro area Member States, an expansionary fiscal policy would be confirmed in Germany, with a fiscal impulse of almost $\frac{1}{2}$ pp. of GDP, and a broadly neutral stance in FR also based on the change in the structural balance. Fiscal policy would be broadly neutral in Spain, the Netherlands and Italy. It should be noted that in the Commission 2019 spring forecast Germany's potential growth for 2019 has been revised to 1.5%, from 2.1% estimated in autumn 2018. This revision implies, other things being equal, a worsening in the change of the structural balance of around $\frac{1}{4}$ pp. of GDP in 2019.

Graph 2.9: Fiscal stance and output gap in euro area Member States, 2019



Note: In a context of positive output gaps, 'pro-cyclical' and 'counter-cyclical' refer in this graph to whether the fiscal policy stance contributes to support or to drag on the economy. CY and EL fall outside the graph with a DFE of -4% and -0.7% of GDP and output gap of +3.8% and -4.0% of potential GDP, respectively.

Source: European Commission 2019 spring forecast

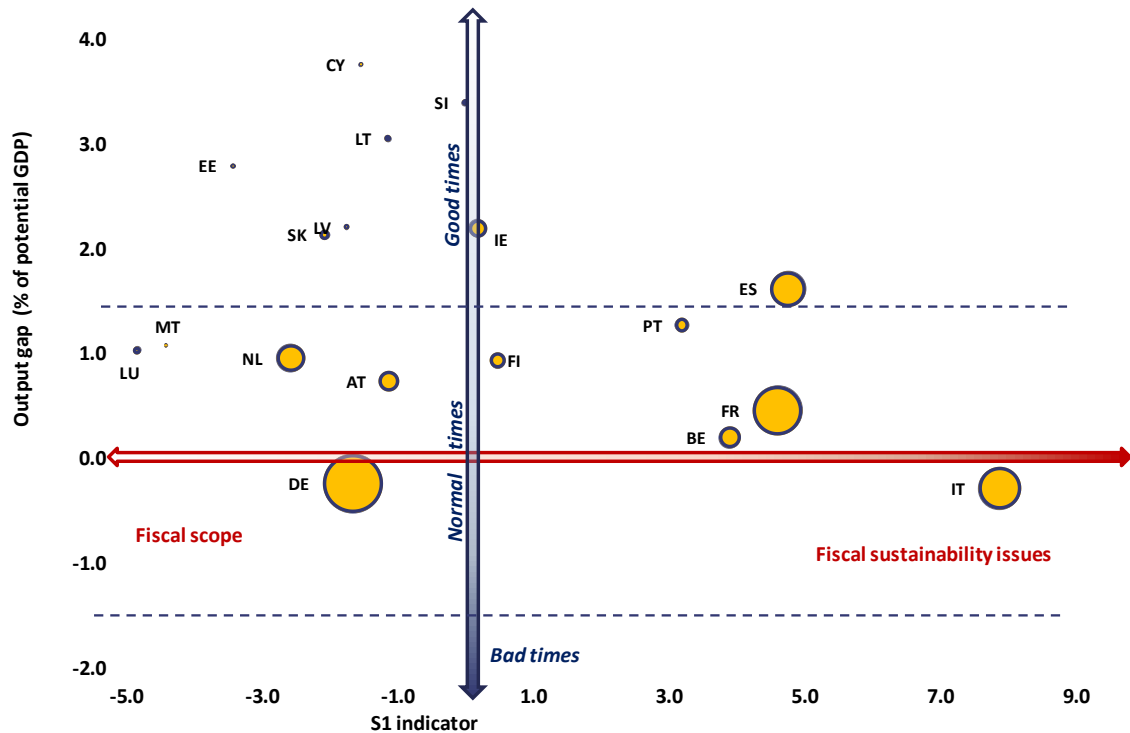
2.2.2. What could be an appropriate euro area fiscal stance in 2020?

Fiscal policy should ensure public finance sustainability while supporting macroeconomic stabilisation in the short term, in particular when monetary policy is constrained at the zero lower bound. ⁽¹⁹⁾ These objectives are presented through a 'fiscal map' that uses the S1 indicator to measure medium-term sustainability needs ⁽²⁰⁾ and the output gap to measure cyclical stabilisation needs (Graph 2.10).

⁽¹⁹⁾ This follows the approach presented in European Commission (2016). "The fiscal stance in the euro area: Methodological issues". *Report on Public Finances in EMU*.

⁽²⁰⁾ The S1 indicator measures the change in the structural primary balance (dSPB) required over five years (from 2020 to 2024) to bring general government debt to the reference threshold of 60% of GDP in 2033. The S1 indicator represents a stylised measure of sustainability needs. In the Commission fiscal sustainability assessment framework, the assessment of medium-term sustainability risks is based on a broader approach including a Debt Sustainability Analysis, encompassing a large set of deterministic and stochastic projections (Box 4.1 for more details and references). In addition, the measure of sustainability needs provided by the S1 indicator can differ from the perspective of the compliance to the SGP (and therefore the Country-Specific Recommendations). A negative S1 indicates the presence of fiscal scope.

Graph 2.10: Fiscal map: Sustainability and stabilisation challenges in 2020 (% of GDP)



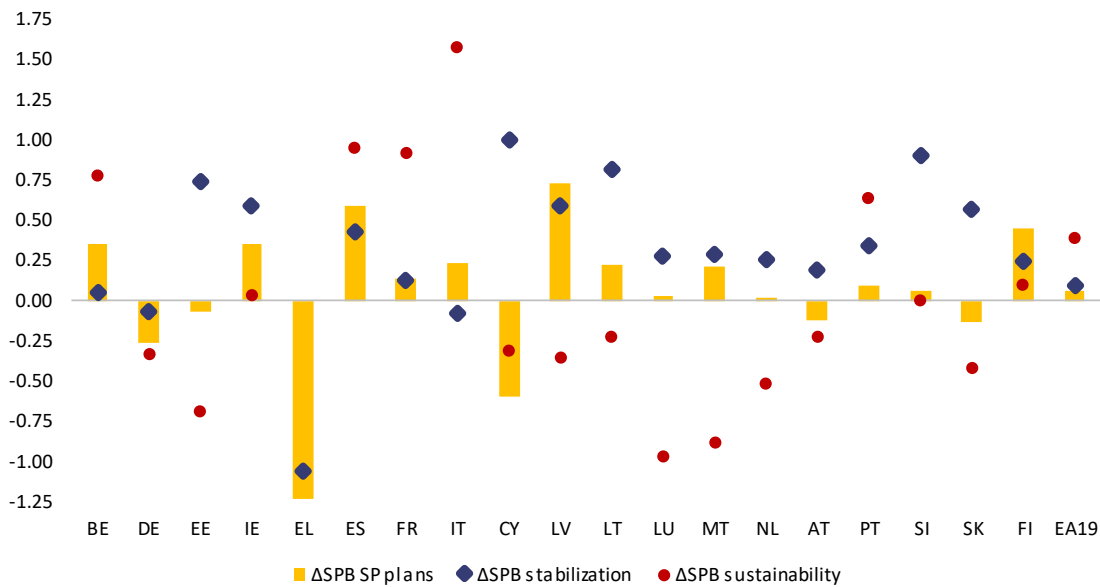
Notes: Horizontal axis: indicator of medium-term risk to the sustainability of public finances: S1 scenario 2019, which measures the total cumulative adjustment (in terms of change in the structural primary balance over 5 years) that would be needed to bring the debt ratio to 60% of GDP by 2033. Vertical axis: Output gap for 2019 based on the commonly agreed methodology. The size of the bubbles is related to the level of GDP.

Source: European Commission 2019 spring forecast

On the one hand, concerns about fiscal sustainability call for rebuilding fiscal buffers in highly-indebted countries in 2020. Five euro area Member States (Belgium, Spain, France, Italy and Portugal) show substantial sustainability needs in 2020, based on the S1 indicator for 2019 (Graph 2.10 and Graph 2.11). At the same time, according to the Commission 2019 spring forecast, no euro area Member State is expected to experience bad economic conditions based on the output gap.⁽²¹⁾ In 2019, the output gap would be only marginally negative in Germany and Italy and positive in the rest of the euro area, while in 2020 economic growth is set to return marginally above potential growth in a context of a very accommodative monetary policy. As a result, no stabilisation needs seem to emerge for 2020. Hence, fiscal sustainability concerns should prevail in those Member States where sustainability risks are high and public debts are not on a safe downward trajectory. Reducing large structural deficits should be the priority for highly-indebted countries, as in the event a sharp economic downturn a stronger fiscal position would allow them to let the automatic stabilisers play in full their role. By contrast, a weak fiscal position may trigger financial market reactions and force pro-cyclical contractionary fiscal policies entailing high social costs.

⁽²¹⁾ Greece is not included in this analysis, as S1 data are not available.

Graph 2.11: **Change in the structural primary balance in 2020: Stability Programmes' plans against sustainability and stabilisation needs (% of GDP)**



Notes: The sustainability criterion is based on the S1 indicator for 2019 and assumes that 20% of the needed change in the structural primary balance (SPB) is implemented in 2020 (red dot). For countries with a negative S1, this indicates scope for expansionary policies. The stabilisation criterion is measured as the change in the SPB for which in 2020 fiscal policy would reduce the output gap expected in 2019 by 20% (blue diamond). This assumes that fiscal policy always plays a countercyclical role (with a fiscal multiplier of 0.75) supporting the closure of the output gap, while other changes in the output gap in 2020 would be due to the underlying cyclical conditions. The orange bars show the planned changes in the SPB in 2020 presented by Member States in their 2019 Stability Programmes, as recalculated by the Commission using the commonly agreed methodology for potential output.

Source: European Commission based on Commission 2019 spring forecast and 2019 Stability Programmes

On the other hand, member States with fiscal scope could boost their potential growth taking advantage of the low interest rate environment. Countries with a negative S1 indicator could take advantage of interest rates remaining at their historical lows to increase their future growth prospects by investing in public infrastructure and other productive spending. It could be in fact argued that, in an economic environment where the cost of servicing the debt may remain significantly below potential economic growth for a protracted period (i.e. $r < g$), reducing public debt significantly below 60% of GDP might not be a priority in countries experiencing physical and digital infrastructure gaps. ⁽²²⁾ In terms of fiscal support to the economy, the full use of automatic stabilisers in countries with fiscal space might be sufficient to counter the central scenario of a mild slowdown. However, additional productive spending in those countries would also help to reduce the negative impact on the economy in case the substantial downside risks surrounding economic growth projections for 2020 materialised (Graph 2.14). Given that monetary policy is at its zero lower bound, fiscal multipliers and spillovers to the rest of the euro area would be rather large. ⁽²³⁾ As a result, a well-designed fiscal expansion in euro area Member States with fiscal scope would enhance their short- and medium-term growth prospects while supporting the overall euro area economy at a time when highly-indebted countries have to reduce their sustainability needs. Moreover, higher public investment would help to rebalance the economy of some Member States like

⁽²²⁾ See for instance Blanchard, O. (2019). “Public Debt and Low Interest Rates”, *AEA lecture* January 2019. Implicit interest rates paid on public debt are currently lower than GDP growth in all euro area Member States except Italy, so $r < g$ implies debt-decreasing snowball effects. However, as seen in the case of Italy, negative $r-g$ values cannot be taken for granted in all Member States. Policies that are perceived as unsustainable may increase the cost of servicing the debt with limited or even negative impact on growth prospects.

⁽²³⁾ See for instance In 't Veld, J. (2016). “Public investment stimulus in surplus countries and their euro area spillovers”, *Economic Brief 16*, August 2016, https://ec.europa.eu/info/sites/info/files/file_import/eb016_en_2.pdf and Buti, M. Leandro, J. and K. Berti (2017). “An unusual recovery: Charting the way forward for European policymakers”, *EU Vox*, 12 May.

Germany and the Netherlands toward domestic demand and possibly help reduce large domestic savings-investment imbalances in the euro area (Box 2.7).

Therefore, differentiated fiscal policies would be advisable in the euro area in 2020: ⁽²⁴⁾

- **Member States with high public debt should strengthen their fiscal position.** Countries that have limited or no fiscal scope, as also shown by the sizeable sustainability needs based on the S1 indicator (Graph 2.11) should implement fiscal adjustments. The accommodative monetary policy stance would support them in their efforts. However, based on unchanged policies, in 2020 the Commission forecast indicates that the structural deficit would remain broadly stable in France and worsen in Belgium, Spain and especially Italy (by more than 1 pp. of GDP). Italy is also the only euro area country where the debt ratio is projected to increase further over the forecast horizon, while debt reduction would be small in Belgium, Spain and France. It should be recalled that in 2018 the announcement of large expansionary policies triggered a significant increase in interest rates in Italy. The overall impact on growth of these expansionary policies could have actually been contractionary because of worsening financing conditions also for the private sector and increased uncertainty about the sustainability of public finances. ⁽²⁵⁾
- **Member States with fiscal scope may use (part of) it to increase productive spending.** Euro area countries that have fiscal scope, as also indicated by the negative sustainability needs based on the S1 indicator, may use (part of) it to support growth-enhancing spending. A fiscal expansion that focused on productive spending would boost potential growth and thus reduce possible overheating concerns where stabilisation needs would suggest restrictive fiscal policies as appropriate (Graph 2.11). Additional productive spending in countries with fiscal scope would be also an insurance for them and the rest of the euro area against the substantial downside risks to the economic outlook that, if materialised, may also imply deflationary effects. In 2020, there is space for using fiscal policies to boost investment and other productive spending while respecting the MTO in six euro area Member States. Based on the Commission no-policy-change forecast, Germany is projected to implement a mild fiscal expansion in 2020 by reducing its structural surplus by around ¼ pp. of GDP, while in the Netherlands the fiscal expansion would be of around ½ pp. of GDP.

The appropriate differentiation of fiscal policies across member States would lead to a broadly neutral fiscal stance at the euro area level in 2020. The combination of restrictive fiscal policies in Member States that are required to adjust ⁽²⁶⁾, in line with the Country-Specific Recommendations (CSRs) for 2020, and additional productive spending in Member States that are expected to overachieve their MTO in 2019, leading to decline in their structural balance up to ½ pp. of GDP), would lead to a broadly neutral euro area fiscal stance in 2020. The outcome of these differentiated fiscal policies is shown in the “SGP compliance and use of fiscal space” scenario in Graph 2.12 for the change in the structural balance and Graph 2.13 for the increase in net primary expenditure relative to medium-term nominal potential growth ⁽²⁷⁾

Based on unchanged policies, the Commission 2019 spring forecast points to a slightly expansionary fiscal stance for the euro area aggregate in 2020, which would be pro-cyclical. Based on the DFE, the

⁽²⁴⁾ It should be stressed 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.

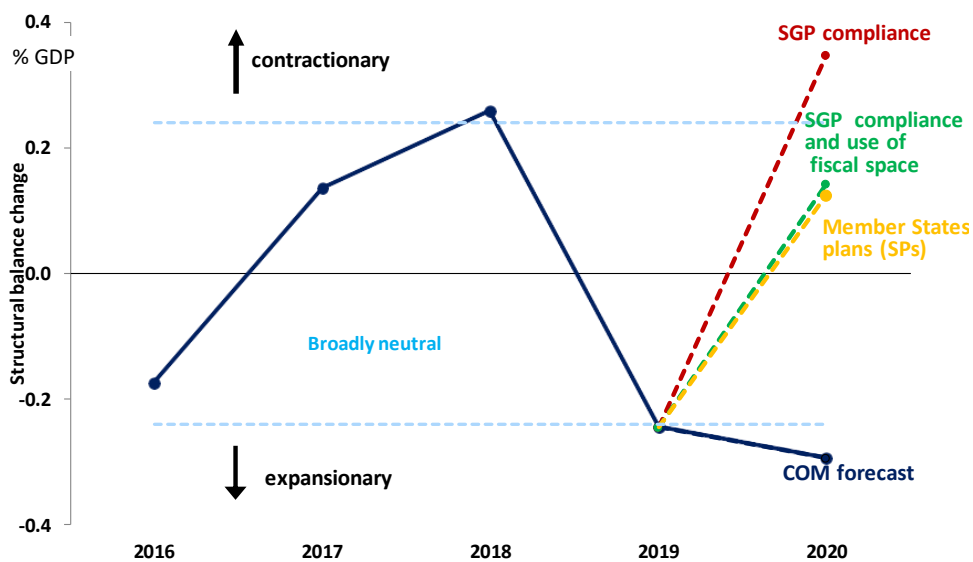
⁽²⁵⁾ See for instance Blanchard O. and Zettelmeyer J. (2018). “The Italian Budget: A Case of Contractionary Fiscal Expansion?”. *Real Time Economic Issues Watch PIIE*, <https://pie.com/blogs/realtime-economic-issues-watch/italian-budget-case-contractionary-fiscal-expansion>

⁽²⁶⁾ The eleven euro area Member States with a required fiscal effort in 2020 are BE, EE, IE, ES, FR, IT, LV, PT, SI, SK and FI.

⁽²⁷⁾ The “SGP compliance and use of fiscal space” scenario implies an increase in the euro area structural balance close to 0.15 pps. of GDP in 2020 (Graph 2.10). Euro area net primary expenditure would instead increase by 2.6%, i.e. slightly less than the 2.9% increase in medium-term nominal potential growth estimated by the Commission forecast (Graph 2.11). This scenario compares with a “SGP compliance” scenario, which assumes full compliance with CSRs in countries required to implement a fiscal adjustment and no change in the structural balance in the others. In this scenario, the euro area fiscal stance would result contractionary in 2020 (increase in the structural balance of around 0.35 pps. of GDP, while net primary expenditure would rise by 2.1%).

fiscal expansion would be 0.4 pps. of GDP, while the structural balance is projected to worsen by 0.3 pps. However, as mentioned above, the geographical composition of this aggregate fiscal stance would be suboptimal, in particular because, based on unchanged policies, some highly-indebted Member States would worsen their structural position. It may be argued that at the current juncture the actual impact on economic growth of expansionary policies in the euro area depends more on the geographical composition than on the aggregate size of the fiscal impulse. The demand effects of fiscal expansion in highly-indebted countries should in fact be weighed against the risk of tighter financing conditions, with uncertainty about the sign of the net fiscal multiplier of expansionary policies in some of those countries. According to the 2019 Stability Programmes, the euro area fiscal stance would be broadly neutral in 2020 as some Member States with sustainability needs pledge to adopt consolidation measures.

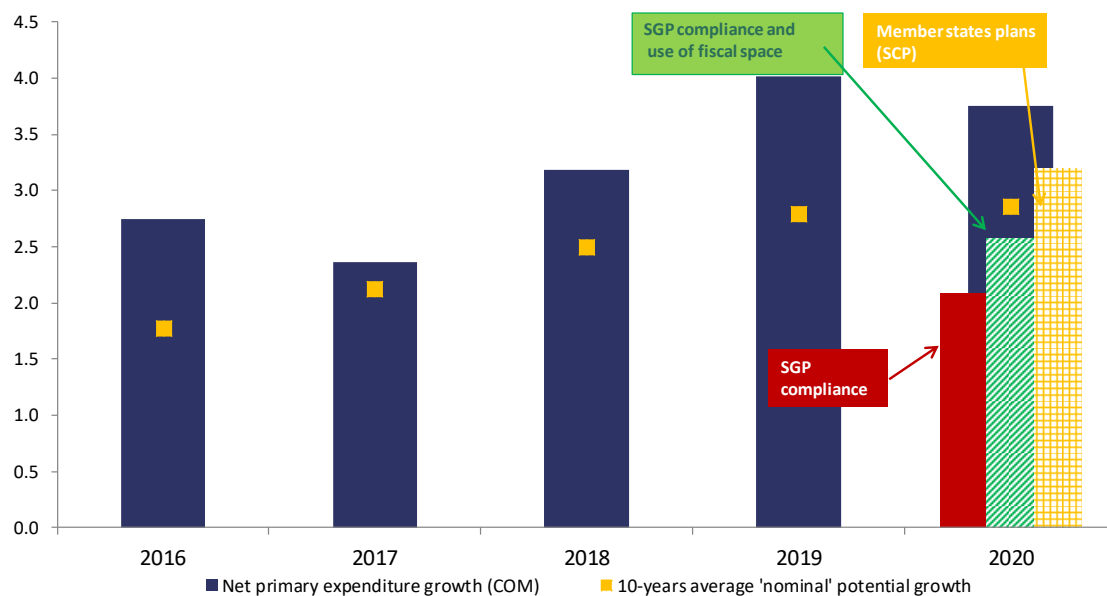
Graph 2.12: Fiscal stance scenarios in 2020 based on the change in the structural balance



Note: The scenarios displayed in the graph represent the change in the aggregate structural balance of the euro area. The scenario 'SGP compliance' assumes that Member States that are not at their MTO implement the fiscal adjustment recommended by the Country-Specific Recommendations for 2020, while no change in the structural balance is assumed in Member States that are projected to overachieve their MTO in 2019. The scenario 'SGP compliance and use of fiscal space' assumes on top of SGP compliance that Member States that have overachieved their MTO in 2019 use (part of) their fiscal scope in 2020 with a decrease in the structural balance up to 0.5 pps. of GDP, depending on the distance to the MTO. The 'Member States plans' and the 'SGP compliance and use of fiscal space' scenarios give similar results for the euro area aggregate, but the composition at country level is different and the former is not consistent with the SGP for some Member States.

Source: European Commission based on Commission 2019 spring forecast and 2019 Stability Programmes

Graph 2.13: Fiscal stance scenarios in 2020 based on the % change in net primary expenditure



Note: The scenarios displayed in the graph represent the increase in net primary expenditure (based on the expenditure benchmark) of the euro area compared with 10-year potential growth estimates. The scenario 'SGP compliance' assumes that Member States that are not at their MTO implement the increase in net primary expenditure as recommended by the Country-Specific Recommendations for 2020, while no change in the structural balance is assumed in Member States that are projected to overachieve their MTO in 2019. The scenario 'SGP compliance and use of fiscal space' assumes on top of SGP compliance that Member States that have overachieved their MTO in 2019 use (part of) their fiscal scope in 2020 with a decrease in the structural balance up to 0.5 pps. of GDP, depending on the distance to the MTO. The 'Member States plans' and the 'SGP compliance and use of fiscal space' scenarios give similar results for the euro area aggregate, but the composition at country level is different and the former is not consistent with the SGP for some Member States.

Source: European Commission based on Commission 2019 spring forecast and 2019 Stability Programmes

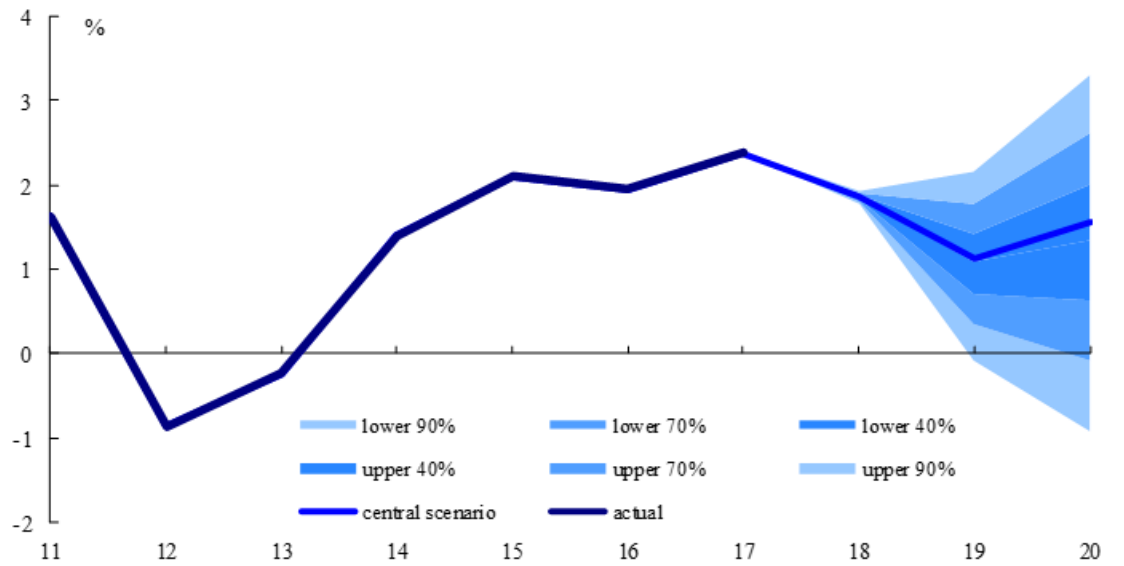
A call for an expansionary fiscal stance in the euro area does not seem to be warranted at this stage.

This would require a dramatic change in the economic outlook. However, Graph 2.14 suggests that the balance of risks for euro area economic growth projections is tilted to the downside. Of course, if those downside risks were to materialise, the situation would need to be reassessed. Anyhow, Member States with sustainability challenges would have limited room to undertake expansionary fiscal policy. In those countries, the overall impact on growth of expansionary policies could be limited by increased uncertainty about the sustainability of public finances and possibly worsening financing conditions. By contrast, in case of a sharp economic downturn, countries with fiscal space should do more to cushion it.

Based on alternative indicators, sustainability needs may be lower than shown by the S1 indicator, but stabilisation needs would remain limited. Specifically, the current level of unemployment does not seem to indicate any larger stabilisation need compared to the output gap (Box 2.4). At the same time, the sustainability needs would appear less severe if computed with a debt threshold of 90% of GDP (instead of 60% as in the S1) and interest rate assumptions based on current financial markets' expectations (Box 2.5).

Finally, structural policies should be an integral part of the right policy mix to support growth prospects and the resilience of the euro area. In particular, fiscal structural policies that prioritise private investment and other productive spending while reducing the tax burden on labour and capital would have positive impact on growth prospects (Box 2.6).

Graph 2.14: Euro area real GDP forecast - Uncertainty linked to the balance of risks



Source: European Commission based on Commission 2019 spring forecast

2.2.3. Assessing the fiscal stance derived from the Stability Programmes

The 2019 Stability Programmes points to a broadly neutral fiscal stance for the euro area in 2020. The euro area structural balance is planned to increase by slightly more than 0.1 pp. of GDP (Graph 2.12) in 2020, in line with the structural effort implied by the planned increase in net primary expenditure (Graph 2.13). Both indicators thus point to a broadly neutral euro area fiscal stance planned by Member States in 2020.

Member States' plans are not always consistent with sustainability needs, as also reflected more institutionally in the lack of compliance with the CSRs:

- For most countries, the changes in the structural primary balance planned for 2020 in the Stability Programmes are larger than their sustainability needs, as measured by a 20% reduction of the medium-term sustainability indicator S1 (Graph 2.11) as well as the CSRs. The planned fiscal expansion in Germany is consistent with its sustainability needs, while the Netherlands do not plan any fiscal expansion despite having fiscal scope.
- Some Member States (Belgium, France, Portugal and Italy) plan fiscal efforts that fall short of their large sustainability needs (and the CSRs). Moreover, for Belgium, Spain and especially Italy the change in the structural primary balance projected at unchanged policy in the Commission 2019 spring forecast is significantly lower than the Stability Programme target for 2020, implying the need of sizeable consolidation measures.

Box 2.4: Stabilisation needs in the euro area as identified by a double condition on unemployment

In its proposal for a European Investment Stabilisation Function, the Commission suggested that a ‘double condition’ on the unemployment rate would indicate the presence of a large cyclical shock. The unemployment rate provides a robust indicator of business cycle movements that leaves aside high-frequency fluctuations. It is also simple, subject to small revisions and its measurement is harmonised. The proposed double condition is specified as (i) the quarterly national unemployment rate exceeding its average over a period of 60 quarters (15 years), and (ii) a year-on-year increase in the quarterly unemployment rate by more than 1 percentage point. An unemployment rate above its historic average neutralises differences in permanent (structural) level of unemployment. ⁽¹⁾ A marked annual increase in unemployment rate together with a level higher than average sends an unambiguous signal of weak cyclical conditions. Thus, the proposed criterion is highly unlikely to flash out in the absence of stabilisation needs (i.e. risk of false positives). However, the double criterion may not be met in *any* possible situation where a stabilisation need could be argued. ⁽²⁾

What is the signal from the double condition at the current juncture?

Labour market conditions have steadily improved in recent years. Since the start of the recovery over five years ago, unemployment rates have been on a downward trend. Despite the slowing economic activity, labour market conditions have continued to improve in recent quarters and the euro area unemployment rate fell in 2019Q1 to its lowest level since autumn 2008. In 2019 and 2020, unemployment rates are forecast to decline more slowly in the euro area, with the exception of Malta and Italy where an increase is projected.

In line with these evolutions, the double condition is not met now in any Member State (Table 1). In three Member States only (LU, EL, IT), the unemployment rates are above their long-term average (hence, the ‘level condition’ is met). However, unemployment rates are still decreasing in all countries on a yearly basis (the ‘change condition’ is not met). In general, most Member States are relatively far from meeting the double condition at this point, given the very significant labour market improvements from past years, as illustrated by large falls from past peaks.

To what extent would the double condition be met in the event of a shock?

As noted above, the baseline forecast is one of a continued decline in unemployment rates (or only very small increases in few Member States). Should downside risks to the forecast materialise however, it is conceivable that the labour market turns around. The double condition may then be met at some point at least in some Member States.

To illustrate to what extent this could occur, three scenarios based on historical experience are simulated, reflecting different degrees of intensity of the negative shocks:

- i) A relatively moderate slowdown, as experienced in the early 2000s, whereby the euro area unemployment rate rose by close to 1pp cumulated over 2002-2004;
- ii) A more significant downturn, of the kind experienced in the early 2010s (so called ‘double dip’), which led to a rise of the unemployment rate by nearly 2 pps. over 2011-2013;

⁽¹⁾ The threshold is set such that small shocks remain under the responsibility of the Member States. In addition, the reference period of 15 years is a compromise. If the reference period is too short, recent cyclical developments weigh heavily on the average. A too long reference period may not sufficiently reflect recent reforms and structural changes in the labour market.

⁽²⁾ Based on historical data, for the proposed threshold of 1 percentage point, the frequency at which the conditions would be met is slightly above 10% (i.e. once per decade for a country).

(Continued on the next page)

Box (continued)

iii) A ‘catastrophic’ shock, similar to the one of the late 2000s, which resulted in a cumulated increase in the unemployment rate by around 3 pps. over 2008-2010.

Table 1: Assessing stabilisation needs via the double condition at the current juncture

	Latest unemployment rate	15-year unemployment average	Unemployment rate 4 quarters ago	Level condition: "Unempl. gap"	Change condition: y-o-y change	Double condition	Memo items			Unemployment rate in 2007
							Peak unemployment (since)	Change from peak	10-year unemployment average	
	(a)	(b)	(c)	(a)-(b)	(d)-(a)-(c)	(a)>(b) & (d)>1	(e)	(a)-(e)	(f)	(g)
BE	5.8	7.7	6.1	-1.9	-0.3	NO	8.7	-2.9	7.7	7.5
DE	3.2	6.5	3.5	-3.3	-0.3	NO	6.2	-3.0	5.1	8.5
EE	4.6	8.5	5.4	-3.9	-0.8	NO	14.3	-9.7	9.3	4.6
IE	5.0	9.4	5.9	-4.4	-0.9	NO	16	-11.0	11.3	5.0
EL	18.5	16.9	21.0	1.6	-2.5	NO	27.7	-9.2	20.8	8.4
ES	14.1	17.2	16.1	-3.1	-2.0	NO	26.2	-12.1	20.8	8.2
FR	8.8	9.3	9.2	-0.5	-0.4	NO	10.5	-1.7	9.7	8.0
IT	10.6	9.4	11.0	1.2	-0.4	NO	12.7	-2.1	10.5	6.1
CY	7.6	8.9	10.3	-1.3	-2.7	NO	16.6	-9.0	11.1	3.9
LV	7.0	11.3	8.2	-4.3	-1.2	NO	17	-10.0	12.7	6.1
LT	6.0	9.8	6.5	-3.8	-0.5	NO	16.8	-10.8	11.2	4.3
LU	5.3	5.2	5.5	0.1	-0.2	NO	6.5	-1.2	5.5	4.2
MT	3.5	5.9	3.9	-2.4	-0.4	NO	6.6	-3.1	5.5	6.5
NL	3.4	5.4	4.1	-2.0	-0.7	NO	7.8	-4.4	5.6	4.2
AT	4.7	5.2	5.4	-0.5	-0.7	NO	6.2	-1.5	5.3	4.9
PT	6.5	11.0	7.6	-4.5	-1.1	NO	17.3	-10.8	12.1	9.1
SI	4.3	7.1	5.6	-2.8	-1.3	NO	10.7	-6.4	7.9	4.9
SK	5.8	12.2	7.1	-6.4	-1.3	NO	14.4	-8.6	11.6	11.2
FI	6.6	8.0	8.0	-1.4	-1.4	NO	9.4	-2.8	8.3	6.9
EA19	7.8	9.6	8.5	-1.8	-0.7	NO	12.1	-4.3	10.3	7.5

Note: The latest unemployment rate refers to 2019Q1, with the exception of EE, EL, IT, CY, LV, AT for which it is 2018Q4
Source: Eurostat

Table 2 summarises the main results of the three simulations over 2019-2021. A moderate downturn could result in the double condition being met in a small number of Member States (four in this case) and for a limited period of time. In the event of a more significant downturn, the double condition would be met by a more notable fraction of Member States, representing together more than a third of euro area GDP (though not necessarily all simultaneously). Finally, in the scenario of a severe recession, more than half of euro area countries would meet the double condition at some point. The results are broadly robust to a different parametrisation, i.e. reducing the average unemployment rate from 15 to 10 years.

Overall, the simulations suggest that only a significant deterioration of the economic conditions, and consequently of the labour markets, could give rise to widespread stabilisation needs in the euro area. While current projections do not point in that direction, risks remain tilted to the downside.

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Box (continued)

Table 2: Main results of three scenarios ⁽³⁾

	Frequency of activation	Member State (no. of quarters)	% of EA GDP
Moderate slowdown (early 2000s)	5.7%	LU(7), NL(3), AT(1), EL(1)	12.1
Significant downturn (double-dip)	19.6%	ES(5), NL(4), PT(3), SI(1), AT(1), CY(9), EL(10), IT(8)	36.2
Catastrophic shock (late 2000s)	33.0%	ES(9), FI(4), FR(4), IE(8), LT(9), SI(2), AT(3), CY(4), EE(8), EL(8), IT(5), LV(7)	56.7

Note: The frequency of activation is measured as the number of times the double condition is met over the total number of observations tested (from 2019Q2 to 2021Q4 for 19 Member States). The percentage of euro area GDP is computed on to the maximum number of countries satisfying simultaneously the double condition.

Source: European Commission

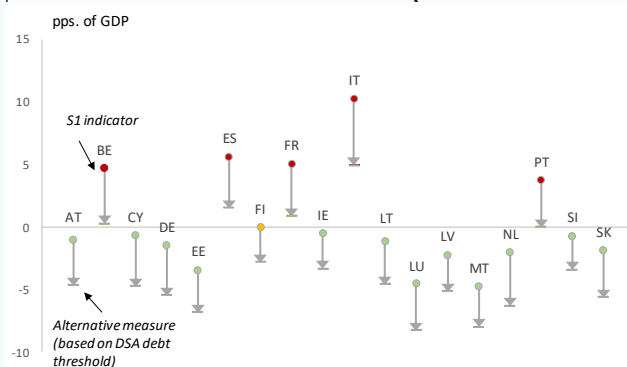
⁽³⁾ The flagged countries should be seen at best as indicative, since the simulations are based on a replication of historic shocks. The affected countries may be different in the future. Results are believed to be more robust in terms of frequency and number of countries concerned

Box 2.5: Alternative measure of fiscal sustainability challenges for the fiscal stance analysis

The fiscal stance analysis traditionally uses the Commission S1 fiscal sustainability indicator as a way to measure fiscal sustainability challenges. The S1 indicator captures risks to fiscal sustainability over the medium-term by measuring the cumulated gradual change in the structural primary balance (over 5 years) in order to bring the general government debt to GDP ratio to 60% over the following 15 years. It is a well-established indicator of medium-term fiscal sustainability risks with several strengths in terms of theoretical background (the finite version of the inter-temporal budget constraint), comparability across EU Member States (by relying on commonly agreed methodologies and assumptions), coverage (by accounting for the future spending due to population ageing), and anchor to the reference SGP debt threshold.

While the S1 indicator provides a relevant basis, additional measures of fiscal sustainability challenges can complement the fiscal stance analysis. Here, for robustness purposes, the results of the S1 indicator are complemented by another quantitative metrics. ⁽¹⁾ Such an alternative measure is based on the standard DSA debt threshold (90% of GDP) used by the Commission (see Fiscal Sustainability Report 2018), to identify countries at *high* fiscal sustainability risks (according to this criterion). ⁽²⁾ Furthermore, this alternative measure relies on different interest rate assumptions than the ones traditionally used in the calculation of the standard S1 indicator. In particular, market interest rates are assumed to converge to country-specific values over the medium-term, set in line with financial markets' expectations, rather than a common target (a long-term interest rate of 5% in nominal terms as in the S1; see Box 4.2).

Graph 1: S1 indicator versus alternative measure (based on DSA debt threshold)



Note: The red, yellow and green circles indicate the high, medium and low sustainability risk level according to the value of the S1 indicator.

Source: European Commission

The outcomes of this alternative indicator suggest lower fiscal sustainability challenges in euro area countries, although these results should not be directly interpreted in terms of medium-term risk classification. The lower required adjustment in the structural primary balance as implied by a higher debt target to be reached over the medium-term, as well as more favourable interest rate dynamics imply a reduced required fiscal effort in euro area countries. The difference in terms of cumulative fiscal effort between the two fiscal sustainability measures, namely the S1 indicator and the alternative indicator is around 3.7 pps. of GDP on average for the euro area, and is significant for most countries (see Graph 1). Nevertheless, even with the alternative indicator, a large sustainability gap persists in Italy. These results, provided for illustrative purpose, should not however be directly interpreted in terms of medium-term risk classification.

⁽¹⁾ See also the European Commission Report on public finances in EMU 2016, where a detailed comparative analysis of different fiscal sustainability measures is provided.

⁽²⁾ The DSA risk classification is based on a wide range of indicators, criteria and scenarios (e.g. in addition to the debt level, the debt path, and the plausibility of fiscal assumptions are considered under different scenarios). Stochastic projections also contribute to the risk classification.

Box 2.6: Are SCPs moving toward growth-friendlier composition of expenditure and revenue? A tentative score-based assessment

Relevance of growth-friendlier composition of expenditure and revenue

In a context of higher public indebtedness following the fiscal crisis, the need for improving the quality of both spending and revenue has become more prominent in the political agenda of national government. Empirical findings support the idea that sound and sustainable fiscal policies are preconditions for growth. When governments accumulate large debt, long-run growth could be hampered. Beyond the fiscal aggregates, acting on the composition of fiscal policy represents a powerful policy lever, which can, in principle, be pulled even if a country needs to reduce its deficit. Indeed, tax instruments as well as expenditure items have different effects on growth ⁽¹⁾.

A simple score to assess the quality of budget composition

Following Cournède et al. (2014), we compute a simple indicator to assess the change in the growth-friendliness composition of the budget between 2019 and 2022 based on the budgetary composition planned in the Stability and Convergence Programmes. ⁽²⁾ Two scores are calculated, the first indicates the quality of the spending/revenue composition relative to short-term economic growth, the second relative to long-term growth. The composition score is a weighted average of the OECD score of individual spending/revenue items based on the share of this item in GDP.

$$\text{Composition score}_{jt} = \sum_{i=1}^n \text{GDP share}_{jit} * \text{growth score}_{it}$$

With j referring to the specific country, t to the year for which the assessment is conducted, i to the individual budget item, and the growth score expressing, in numerical terms (from -1 to +1), the strength of growth effect as displayed in Table 1. Therefore, for each country what matters is not only the composition of expenditure and revenues but also the size of the government, and in particular the tax burden.

The composition scores, although intuitive, should only provide a first assessment, given the numerous caveats of such approach. The score only considers the composition of public finance without any reference to microeconomic efficiency of individual items. The computation of the scores is also limited by the availability of relevant data in the SCPs, in particular the limited level of disaggregation on the expenditure side (see footnote 2). Lastly, it is affected by the standard limitation of indicator-based approach, which invites for a more in-depth analysis.

The fiscal items, used for the analysis, cover most of expenditure (84%) and revenue (90%) (Graph 1). One third of the expenditure corresponds to social transfers (pension, unemployment insurance, family allowance, sickness/disability). Another third covers government consumption other than those dedicated to education and health. One sixth of total spending corresponds to “productive spending”, covering: public investment, education and health. The last sixth represents subsidies and debt servicing. In the scoring, we only consider the primary spending, at the exclusion of interest payments, which are not directly under government control (albeit a sound debt management may help). Revenue is almost equally divided across the three main categories, namely direct taxes, indirect taxes and social security contributions. The weights

⁽¹⁾ See for instance A. (2008). “The quality of public finances and economic growth”. *Economic Papers* 337, European Commission; Barrios S. and Schaecter, A. (2009). “Gauging by numbers: A first attempt to measure the quality of public finances in the EU”. *Economic Papers* 382, European Commission; Cournède, B., Goujard A. and Pina Á. (2014). “Reconciling fiscal consolidation with growth and equity”. *OECD Journal: Economic Studies*, Vol. 2013/1.

⁽²⁾ The series of Education, Health services and Other government consumption are determined on the base of their percentages in terms of Final consumption expenditure, as they appear in COFOG decomposition for 2017. Seemingly, the series for Pensions, Sickness and disability payments and Family are reconstructed on the base of their percentages in terms of Social transfer other than in kind.

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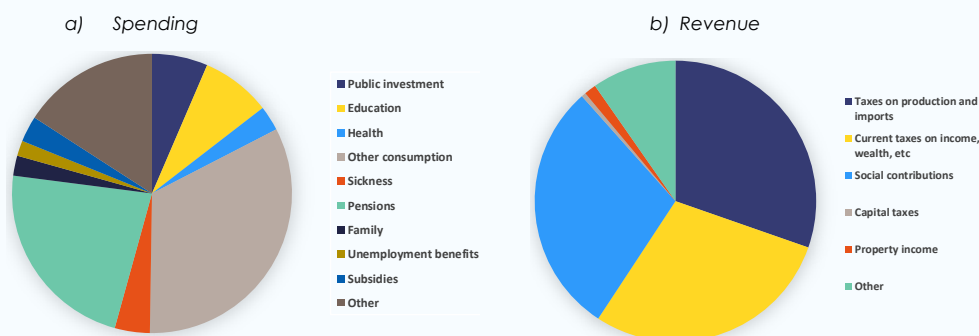
used for the scoring are expressed as a percentage of GDP, to also take into consideration their economic size.

Table 1: Growth friendliness of fiscal instruments (“OECD scores”)

	Growth assessment	
	Short-term	Long-term
Expenditure side		
Education	++	++
Health services	++	+
Other government consumption	++	-
Pensions		--
Sickness and disability payments	+	-
Unemployment benefits	+	-
Family	+	--
Subsidies	+	--
Public investment	++	++
Revenue side		
Current taxes on income, wealth, etc	-	--
Capital taxes	-	--
Social security contributions	-	--
Taxes on production and imports	-	-
Property income	-	

Note: As illustrated in Table 1, the growth effect assumes four levels of intensity “- -”, “-”, “0”, “+” and “++”, which are translated in numerical terms in a scale from -1 (“- -”) to 1 (“+ +”), with consecutive intensities differentiating by 0.5.
Source: Elaborations on Cournède et al. (2014)

Graph 1: 2019 EU average weights of individual fiscal item (% of total expenditure and revenues respectively)



Source: European Commission based on 2019 SCPs

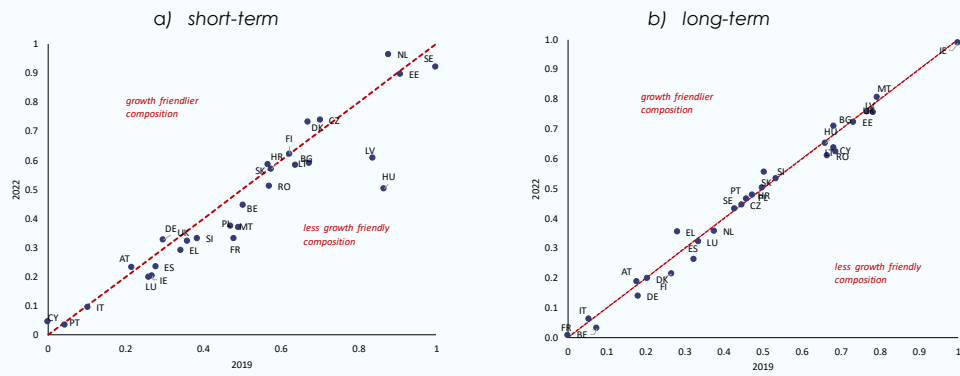
Overall, the SCPs do not point to an improvement in the quality of budget composition by 2022

Regarding the impact on short-term growth (Graph 2a), most countries move slightly toward a less growth-friendly composition of the budget from 2019 to 2022. Regarding the impact on long-term growth (Graph 2b), instead, no significant change is observable in the quality of budget composition. However, this could also be due to unavailability of disaggregated consumption and social expenditure. Member States – in particular those with a low composition score in 2019 – should consider stepping up effort to reduce unproductive spending (including interest payment by pursuing prudent fiscal policies), to boost investment and other growth-friendly spending while reducing the share of most distortionary taxes.

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Box (continued)

Graph 2: Developments in the quality of fiscal composition in the SCP over 2019-2022



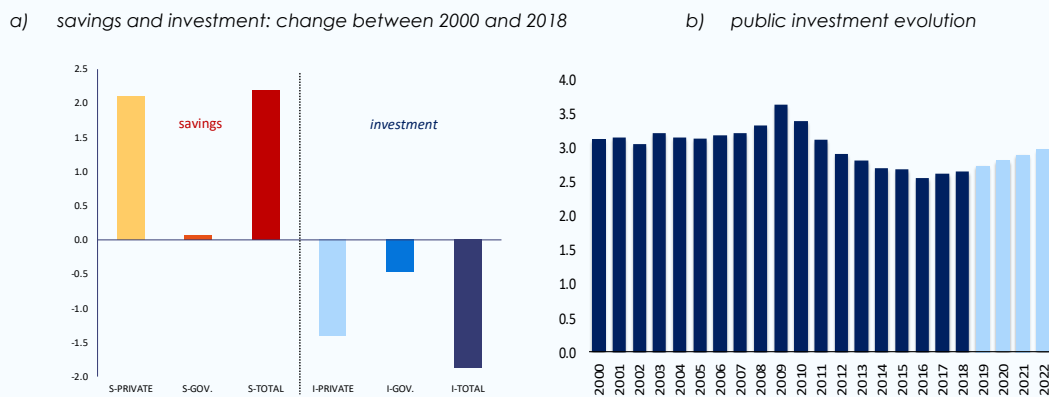
Note: To improve readability the score is min-max normalised over the period 2019-2022.

Source: European Commission based on 2019 SCPs

Box 2.7: Public investment in the euro area

For the euro area, falling (private and public) investment since 2000 combined with rising (private) savings have resulted in a sizeable current account surplus in recent years (around 3% of GDP in 2018). The investment ratio has fallen by slightly less than 2 pps. of GDP since 2000 in the euro area, of which 0.5 pps. due to the government sector. On the one hand, total savings in the euro area have increased by slightly more than 2 pps. of GDP since 2000 (see Graph 1a). Such increase is almost entirely due to the private sector. Countries with a large increase in savings over the last two decades (e.g. DE and NL) have not recorded any increase in their public investment.

Graph 1: Euro area savings and investments by sector (% GDP)



Note: light blue bars in panel b) represent 2019 SCP projections
Source: European Commission and 2019 SCPs

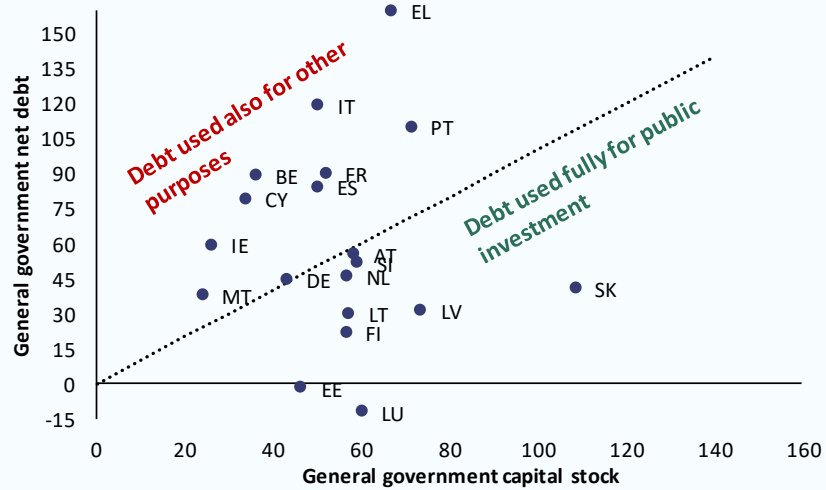
Stability Programmes project a steady increase in private and public investment in the 2019-2022 programme period. Projections put forward in the 2019 Stability Programmes would result in an overall increase in the euro area investment ratio of 1.2 pps. of GDP by 2022. The increase in the public investment ratio would be 0.3 pps. of GDP (Graph 1b), while the private investment ratio is set to increase by 0.9 pps. of GDP. At the same time, a projected increase in the saving ratio close to 1 pp. of GDP by 2022 can be inferred given the decline in the surplus with the rest of the world (0.3 pps. of GDP).

There seems to be scope to increase public investment in the euro area, especially in Member States that have not accumulated public debt for other purposes. Graph 2 presents the relationship between the existing stock of net debt and the capital stock of the general government. The main intuition behind the graph is that when net debt is lower than the capital stock, it could be considered that the accumulation of debt has been fully related to finance public investment. Conversely, when net debt is higher than the capital stock, the exceeding part of net debt has not been used to finance public investment. Member States that need to enhance their public infrastructure and do not have sustainability challenges may prioritise investment spending to debt reduction taking advantage of the current low level of interest rates. This might be an appropriate policy also from an intergenerational point of view in particular if the accumulation of debt in the past has been mainly related to the accumulation of public capital, which will bring benefit to future generations. Scaling-up of public investment in the euro area should be done without endangering fiscal sustainability. For Member States with limited fiscal space and where the accumulation of high public debt has not been reflected in higher capital stock, this would require improvements in the composition of public finances to create room for more investment.

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Box (continued)

Graph 2: General government: net debt and capital stock in euro area Member States (2017 - % of GDP)



Note: Net public debt is computed as gross debt (Maastricht definition) net of financial assets held by the GG sector in currencies and deposits, loans and debt securities. GG capital stock data (in current price replacement costs) come from Eurostat national accounts balance sheets by sector for non-financial assets [nama_10_nfa_bs], with the following exceptions: data for ES, IE and MT are European Commission – DG ECFIN estimates, which are derived from Eurostat general government GFCF and consumption of fixed capital and AMECO data for net capital stock for the total economy. Moreover, 2017 values for CY, EE, EL, LT and LV are estimated by adding to 2016 capital stock data general government GFCF in 2017, and then subtracting consumption of fixed capital in 2017.

Source: European Commission

3. RISK ASSESSMENT OF MEMBER STATES' PLANS

This section analyses possible risks to the achievement of the budgetary targets set out in the 2019 Stability and Convergence Programmes (SCPs). To ensure the comparability with Commission 2019 spring forecast⁽²⁸⁾, the assessment of risks is conducted separately and differently over the two sub-periods (2019-2020 and 2021-2022), composing the SCPs horizon. The section is structured as follows. Section 3.1 presents a comparison between the main fiscal variables for 2019 and 2020, as planned in the SCPs and as forecast by the Commission. Section 3.2 checks the feasibility and internal consistency of Member States' budgetary targets for 2021 and 2022.

3.1. RISKS TO 2019 AND 2020 PLANS

The difference in projections between Commission and Member States identifies the risks while their seriousness depends on the grade of optimism of the Member States plans. Table 3.1 presents the main macroeconomic and fiscal variables considered for the risk assessment. In most Member States, the programmes are based on independently produced or endorsed macroeconomic forecasts (Box 3.1 for details).

Table 3.1: GDP growth and main fiscal variables: a comparison between 2019 SCPs and Commission forecast

		2018	2019		2020	
		Outcome (COM)	Commission forecast	2019 SCP	Commission forecast	2019 SCP
EU euro area	Real GDP growth (%)	2.1	1.5	1.5	1.7	1.7
		1.9	1.2	1.4	1.5	1.6
EU euro area	GDP deflator (% change)	1.6	1.8	1.8	1.8	1.8
		1.4	1.6	1.6	1.6	1.7
EU euro area	Headline balance (% GDP)	-0.6	-1.0	-0.9	-1.0	-0.6
		-0.5	-0.9	-0.9	-0.9	-0.5
EU euro area	Interest expenditure (% GDP)	1.8	1.8	1.7	1.7	1.7
		1.8	1.8	1.7	1.7	1.6
EU euro area	Change in the structural balance (% potential GDP)	0.3	-0.2	-0.2	-0.2	0.2
		0.3	-0.2	-0.2	-0.3	0.1
EU euro area	Fiscal effort based on expenditure benchmark (% GDP)	-0.2	-0.6	-0.3	-0.4	0.0
		-0.3	-0.5	-0.4	-0.4	0.0

Source: European Commission based on Commission 2019 spring forecast and 2019 SCPs

The growth and inflation outlook for 2019 and 2020 are similar based on the Commission forecast and the aggregate SCP plans. The Commission projects slightly lower real GDP growth for the euro area in both 2019 and 2020, while projections for the EU are the same. As a result, the impact of these differences on the aggregate headline balance is expected to be marginal.

The SCP budgetary targets for the 2019 headline budget balance (HB) are very close to the Commission forecast in aggregate terms. Hence, the risks relative to the achievement of 2019 fiscal targets seem to be limited at aggregate level. At country level, only four countries (BE, EL, RO, and SK) plan 2019 headline balance budgets higher than 0.3 pps. of GDP compared with the Commission forecast (Graph 3.1). By contrast, the Commission forecast is more favourable by at least 0.3 pps. of GDP in the case of four countries (BG, DK, HR and LU).

⁽²⁸⁾ Commission 2019 spring forecast covers 2019 and, based on unchanged policy, 2020. Thus it provides a benchmark against which to assess the macroeconomic and budgetary projections only for the sub-period 2019-2020 of the SCP horizon.

Box 3.1: Independent production or endorsement of the macroeconomic forecasts underpinning the 2019 Stability and Convergence Programmes

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 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 19 Stability Programmes submitted in spring 2019, five (AT, BE, LU, NL and SI) relied on macroeconomic forecasts prepared by external independent producers. In addition, a special mechanism is in place in FI, 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.

In the other 13 Member States (CY, DE, EE, EL, 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 two countries, the relevant institutions are not the national fiscal councils (i.e. independent entities in charge of monitoring public finances and compliance with numerical rules), but specialised committees tasked with assessing the government forecasts. More precisely, in SK, the endorsement competence was conferred to the Macroeconomic Forecasting Committee, which is composed of representatives of independent institutions (commercial banks, the Slovak Academy of Sciences and the central bank). In DE, the Joint Economic Forecast Project Team, comprising leading economic research institutions, was established in 2018 to act as the independent body for endorsing the federal government's macroeconomic scenario.

As regards the Stability Programmes of the 13 Member States in which independent bodies endorse the forecasts, in most of the cases those bodies assessed the official macroeconomic scenario as prudent, and therefore, at most, pointed to broadly-balanced risks to the projections. In a few countries, most notably EL and IT, the endorsement texts highlighted downside risks, of both internal and external nature. For PT, the Public Finance Council endorsed the macroeconomic forecasts underlying the Stability Programme for the period 2019-2020, but not for the period 2021-2023, for which it flagged significant divergences vis-à-vis other institutional projections; overall, the government's forecast for the outer years of the programme was considered to be neither the most likely, nor the most prudent scenario.

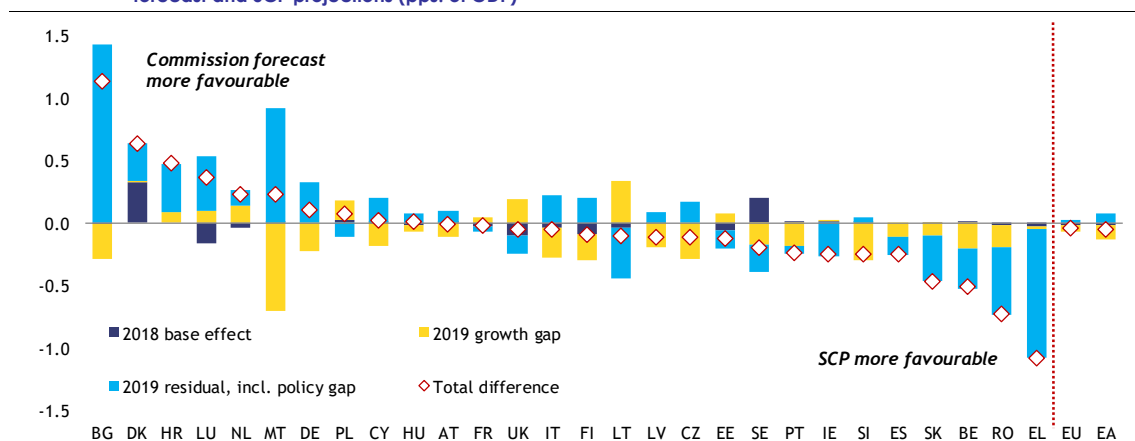
Outside the euro area, there is no corresponding legal requirement; this being said, the UK uses the macroeconomic forecasts produced by the independent Office for Budgetary Responsibility for both annual and medium-term budgetary planning since its establishment in 2010. Furthermore, a systematic scrutiny has been introduced in CZ with the establishment of the Committee on Budgetary Forecasts, composed of leading economists from the private, public and academic sectors. The Committee is tasked with assessing the plausibility of the government's macroeconomic and budgetary forecasts. In other non-euro area Member States, even though independent fiscal institutions typically pronounce on the realism of macroeconomic projections (more often for annual budgets than for the multi-year fiscal plans), their opinions have no institutional bearing in the policy-making process.

In order to detect potential drivers of the differences between the two projections, further analysis is performed. The decomposition of the difference is based on three potential drivers described as follow:

$$HB_t^{COM} - HB_t^{SCP} = \underbrace{(HB_{t-1}^{COM} - HB_{t-1}^{SCP})}_{\text{Base effect}} + \underbrace{(nom. growth_t^{COM} - nom. growth_t^{SCP}) * \varepsilon}_{\text{Growth gap}} + \underbrace{\text{Residual}}_{\text{Policy gap}}$$

$HB_t^{COM} - HB_t^{SCP}$ represents the difference in the headline budget balance in 2019 according to the two projections. $HB_{t-1}^{COM} - HB_{t-1}^{SCP}$ is the *Base effect*, reflecting possible differences in the 2018 balance budget outcome. $nom. growth_t^{COM} - nom. growth_t^{SCP}$ multiplied by ε (the semi-elasticity) is the *growth gap* ⁽²⁹⁾, and then there is a residual. This last component, defined as *policy gap*, among others, measures the difference in the assessment of budgetary measures underlying the projected fiscal targets. It can also include possible differences in revenue elasticities or other unexplained factors beyond the control of the government, such as for instance assumptions about interest rates. A negative residual represents a downside risk to the plans. Graph 3.1 illustrates that for most Member States the main driver of differences between the Commission budget balance and the SCP targets for 2019 is related to the *policy gap*.

Graph 3.1: General government balance for 2019: decomposition of the difference between the Commission 2019 spring forecast and SCP projections (pps. of GDP)



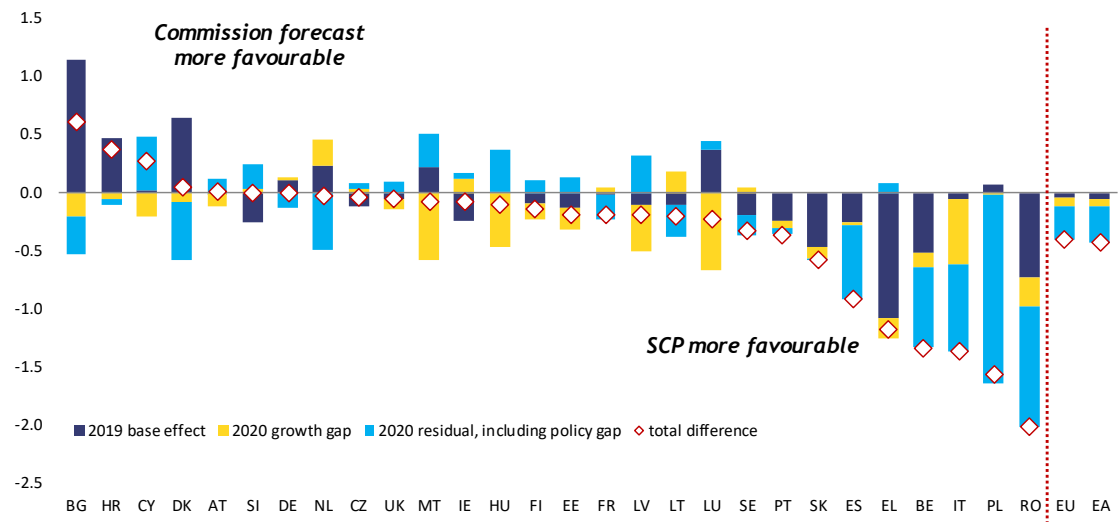
Note: The graph shows a decomposition of the difference between the balance budget figure in 2019, as per the SCPs and Commission forecast into (i) base effect; (ii) difference in a standardized measure of the growth gap impact; and (iii) a residual. How to read the graph: negative (positive) values imply that the component has a positive (negative) impact in the SCPs relative to the Commission 2019 spring forecast. The sum of the components is the difference between the COM headline budget balance and the SCP headline balance forecast.

Source: European Commission based on Commission 2019 spring forecast and 2019 SCPs

SCP budgetary targets are more favourable than the Commission forecast for 2020 at aggregate level. For both the EU and the euro area, the aggregate headline deficit is lower based on the SCPs budgetary targets than according to the Commission no-policy-change forecast, by 0.4 pps. of GDP (Graph 3.2). The difference is mainly driven by the *policy gap*, while the different starting point (*base effect*) and the difference due to macroeconomic assumptions (*growth gap*) are very limited in aggregate terms. For the euro area aggregate, the Commission forecast expects lower revenues and higher primary expenditure than the Stability Programmes in 2020. The latter might also be explained by the lower growth assumptions (Table 3.1).

⁽²⁹⁾ Different nominal growth forecast for a given year can result in different forecast for the headline balance. The standard semi-elasticities are used to approximate the effect of different nominal growth assumptions on headline balance prospects. For more information on semi-elasticity computations, see Mourre G., Poissonnier, A. and Lausegger, Martin (2019). "The Semi-Elasticities Underlying the Cyclically-Adjusted Budget Balance: An Update and Further Analysis", *Discussion Paper 098*.

Graph 3.2: General government balance for 2020: decomposition of the difference between the Commission 2019 spring forecast and SCP projections (pps. of GDP)



Note: The graph shows a decomposition of the difference between the balance budget figure in 2020, as per the SCPs and Commission forecast into (i) base effect; (ii) difference in a standardized measure of the growth gap impact; and (iii) a residual. How to read the graph: negative (positive) values imply that the component has a positive (negative) impact in the SCPs relative to the Commission 2019 spring forecast. The sum of the components is the difference between the COM headline budget balance and the SCP headline balance forecast.

Source: European Commission based on Commission 2019 spring forecast and 2019 SCPs

At country level, the *policy gap* explains the large difference between the Commission projections and SCP targets for 2020 in five Member States. Graph 3.2 shows that for nine Member States (SE, PT, SK, ES, EL, BE, IT, PL and RO) the Commission forecast projects a 2020 budget balance lower the SCP targets by at least 0.3 pps. of GDP. The *policy gap* is particularly big in the case of ES, BE, IT, PL and RO (also EL if 2019 is considered), which implies an overall difference close or above 1 pp. of GDP.⁽³⁰⁾ A large policy gap is a recurrent feature of the risks analysis of the SCPs' targets because the Commission forecast is made under an unchanged policy assumption. This implies that it only considers measures that are deemed sufficiently well specified and credibly announced. More favourable growth projections for 2020 in the SCPs than in the Commission forecast also have a sizeable impact (at least 0.3 pps. of GDP) in number of Member States (MT, HU, LV, LU and IT).

The change in the structural balance planned in the SCPs for 2020 is 0.4% of GDP higher than the Commission forecast. SCPs were in many cases only available after the cut-off date for the Commission 2019 spring forecast or contain targets that are not underpinned by measures already adopted.

3.2. RISKS TO 2021 AND 2022 PLANS

On the revenue side, risks to the achievement of the outer years' fiscal targets can stem from the plausibility of budgetary projections at unchanged policy, and from the impact of fiscal measures. Contrary to the assessment of risks to the fiscal targets for 2019 and 2020 – where Commission forecasts provide a natural benchmark against which to assess SCPs' projections – the evaluation of risks in the

⁽³⁰⁾ In the Italian case, the difference reflects the no-policy change scenario underlying the SCP which includes already legislated VAT hikes (around 1.3% of GDP) that are not included in the Commission forecast.

outer years of the programme mainly focuses on the comparison between the fiscal targets and no-policy change projections in the programmes. The comparison of these two sets of variables provides a direct element of analysis to gauge the magnitude of the first source of risks: the cumulative amount of additional measures Member States would need to implement according to their own projections in order to reach their deficit objectives. While all Member States submitted no-policy change revenue projections, only twenty-one of them submitted no-policy change expenditure ones. ⁽³¹⁾ Therefore, this section focuses more specifically on the revenue-side.

Table 3.2: **Implicit amount of revenue measures and revenue windfalls for 2021 and 2022 (% of GDP)**

	Targeted change in revenue ratio		of which:				Reported impact of Discretionary Revenue Measures		Annual revenue windfalls (+) / shortfalls (-) implicit in the 2018 SCPs	
			Change in revenue ratio at unchanged policy		Implied annual measures					
	(I)		(II)		(III)=(I)-(II)		(IV)		(V)	
pps. of GDP	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
BE	0.0	0.0	-0.2	0.1	0.2	-0.1	0.2	-0.1	-0.2	0.1
CY	-0.3	-0.5	-0.4	-0.5	0.2	0.0	0.3	0.1	-0.4	-0.5
DE	-0.3	0.0	-0.3	0.0	0.0	0.0	-0.4	-0.1	-0.3	0.0
EE	-0.7	-1.0	-0.7	-1.0	0.0	0.0	0.2	-0.4	-0.7	-1.0
EL	-0.8	-0.9	-0.9	-0.8	0.1	-0.1	-0.1	-0.1	-0.9	-0.8
IE	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
ES	0.5	0.4	0.4	0.4	0.0	0.0	0.1	0.0	0.4	0.4
FR	-0.3	-0.3	0.0	-0.1	-0.3	-0.2	-0.3	-0.3	0.0	-0.1
IT	-0.1	-0.4	-0.1	-0.3	0.0	-0.1	0.1	-0.1	-0.1	-0.3
LV	-0.5	-0.5	-0.5	-0.5	0.0	0.0	0.0	0.0	-0.5	-0.5
LT	-0.1	-0.3	0.3	-0.3	-0.4	0.0	0.0	0.0	0.3	-0.3
LU	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0
MT	-1.0	-0.5	-1.0	-0.6	0.0	0.0	0.0	0.0	-1.0	-0.6
NL	-0.6	-0.1	-0.6	-0.1	0.0	0.0	-0.4	0.2	-0.6	-0.1
AT	-0.6	-0.5	-0.1	-0.1	-0.5	-0.4	-0.5	-0.4	-0.1	-0.1
PT	0.3	-0.7	0.3	-0.7	0.0	0.0	0.4	-0.4	0.3	-0.7
SI	-0.8	-0.5	-0.8	-0.5	0.0	0.0	0.0	0.0	-0.8	-0.5
SK	-0.5	-0.2	-0.4	-0.2	-0.1	0.0	-0.2	0.0	-0.4	-0.2
FI	-0.3	-0.1	-0.3	-0.1	0.0	0.0	-0.2	0.0	-0.3	-0.1
BG	-0.4	-0.8	-0.4	-0.4	0.0	-0.4	0.4	0.0	-0.4	-0.4
CZ	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DK	0.0	0.2	0.1	0.2	-0.1	0.0	-0.1	0.0	0.1	0.2
HR	-0.5	-0.2	-0.5	-0.2	0.0	0.0	0.0	0.0	-0.5	-0.2
HU	-1.4	-1.7	-1.4	-1.7	0.0	0.0	-0.4	-0.6	-1.4	-1.7
RO	-0.3	0.4	-0.3	0.4	0.0	0.0	0.0	0.0	-0.3	0.4
PL	-1.2	-1.1	-1.2	-1.0	0.0	-0.1	0.2	0.1	-1.2	-1.0
SE	-0.1	-0.2	-0.1	-0.2	0.0	0.0	-0.1	0.0	-0.1	-0.2
UK	-0.2	0.3	0.0	0.3	-0.2	0.0	0.0	0.0	0.0	0.3
EU	-0.3	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1
EA	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1

Note: Windfalls/shortfalls in column (v) are approximated by comparing the no-policy-change revenue projections in the SCPs with a simplified calculation based on a revenue elasticity of one with nominal GDP growth projections.

Source: European Commission based on 2019 SCPs

Overall, the revenue projections at unchanged policy seem to be prudent. Most Member States include some revenue shortfalls over 2021-2022 in their unchanged policy projections, as shown in Table 3.2, column (v).⁽³²⁾ Only three Member States, count on substantial revenue windfalls in their unchanged policy scenario, ranging from 0.3% of GDP (DK, UK) to 0.8% of GDP (ES). If these windfalls were not

⁽³¹⁾ 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.

⁽³²⁾ 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.

to materialise, these Member States would need to implement larger revenue measures than reported to attain their revenue targets in 2021-2022.

Risks stemming from the size of the required measures seem restrained on the aggregate. The difference between the unchanged policy projections and the revenue targets indicate the amount of revenue measure that needs to be taken to implement the programme. On aggregate, the amount of discretionary measures required in either 2021 or 2022 (Table 3.2, column iii) is consistent with some revenue-decreasing measures (i.e. tax cuts). At country level, CY will need to implement additional revenue measures of around 0.2% of GDP in 2021-2022, but the programme plan an even large amount of discretionary revenue measures (0.4% of GDP).

On aggregate, interest expenditure (Table 3.3) it is not expected to drop further in 2021-2022. The implicit interest rate on the outstanding debt stock is expected to slightly increase for the EU between 2020 and 2022, reaching 2.1% while remain stable for the euro area (2.2%). At country level, 20 countries still count on savings from lower interest expenditure in the outer years of the programme. These are significant in particular for CY, PT, SI, HR and especially LT. On the other hand, FR, IT, EE and FI expect an increase in 2021-2022. A comparison with the Commission's own medium term debt projections shows that interest rate assumptions of the SCPs appear on aggregate relatively prudent. However, they appear substantially optimistic in the case of LT, LU, SK, DK, RO and SE. 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: 2019 SCPs - GDP growth and main fiscal variables

		2019	2020	2021	2022
		2019 SCP			
EU	Real GDP growth	1.5	1.7	1.6	1.6
euro area	(%)	1.4	1.6	1.4	1.3
EU	GDP deflator	1.8	1.8	1.8	1.8
euro area	(% change)	1.6	1.7	1.7	1.7
EU	Headline balance	-0.9	-0.6	-0.5	-0.3
euro area	(% GDP)	-0.9	-0.5	-0.3	-0.2
EU	Interest expenditure	1.7	1.7	1.6	1.7
euro area	(% GDP)	1.7	1.6	1.6	1.7
EU	Change in the	-0.2	0.2	0.1	0.2
euro area	structural balance	-0.2	0.1	0.1	0.1
	(% potential GDP)				
EU	Fiscal effort based on	-0.3	0.0	0.0	0.1
euro area	expenditure benchmark	-0.4	0.0	0.0	0.1
	(% GDP)				

Source: European Commission based on 2019 SCPs

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 as a point of departure the latest Commission 2019 spring forecasts and the 2019 Stability and Convergence Programmes (SCPs). The long-term budgetary projections released with the 2018 Ageing Report have also been incorporated in the simulations. ⁽³³⁾ The analysis is notably based on the Commission multidimensional framework to assess fiscal sustainability risks (see Box 4.1). This section also includes a specific sensitivity analysis, considering an alternative assumption for the evolution of interest rates in the medium term, anchored to financial markets' expectations (see Box 4.2).

4.1. SHORT-TERM FISCAL SUSTAINABILITY RISKS

Overall, short-term fiscal sustainability risks have declined for EU countries since 2009, although risks appear on the rise in some cases. The S0 indicator, an 'early-detection indicator', allows identifying short-term fiscal sustainability risks, on the basis of a large set of structural variables. ⁽³⁴⁾ In 2009, more than half of the Member States had values of the S0 indicator above its critical threshold, signalling risks of fiscal stress in the upcoming year. This round, only Cyprus has a value of S0 that is above the threshold signalling an overall fiscal sustainability risks in the short-term, while significant vulnerabilities on the fiscal side are identified in four additional countries (Spain, France Italy and Hungary, see Graph 4.1). These vulnerabilities deserve particular attention, in a context where financial market sentiments can change rapidly. Italy is particularly exposed to sudden changes in such financial market perceptions, notably in the light of its sizeable government financing needs.

In the case of Cyprus, both the fiscal and financial-competitiveness sides of the economy pose potential challenges. In particular, one-off banking support measures in 2018 led to the deterioration of several fiscal variables, such as the primary balance and the net and gross government debt, while macro-financial vulnerabilities remain significant. Nevertheless, in 2019, the general government balance is expected to be in high surplus contributing to a reduction of gross financing needs this year (also considering the high share of concessionary debt), thus overall mitigating the high short-term sustainability risk.

In Spain, France Italy and Hungary, the high level of government debt, coupled in some cases with important gross financing needs (Spain, Italy and Hungary), a weak fiscal position (Spain, France and Hungary) and the weight of short-term government debt as a share of GDP (Italy), contribute to the assessment. Yet, for these four countries, the overall S0 indicator does not point to overall short-term fiscal sustainability risks, in light of more limited macroeconomic imbalances.

⁽³³⁾ European Commission (DG ECFIN) and Economic Policy Committee (AWG) (2018), "The 2018 Ageing Report: Economic and budgetary projections for the EU Member States (2016-2070)", *European Economy, Institutional Paper*, No.079.

⁽³⁴⁾ These variables include fiscal and financial-competitiveness variables (see also Box 4.1 for more explanations on this indicator).

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:

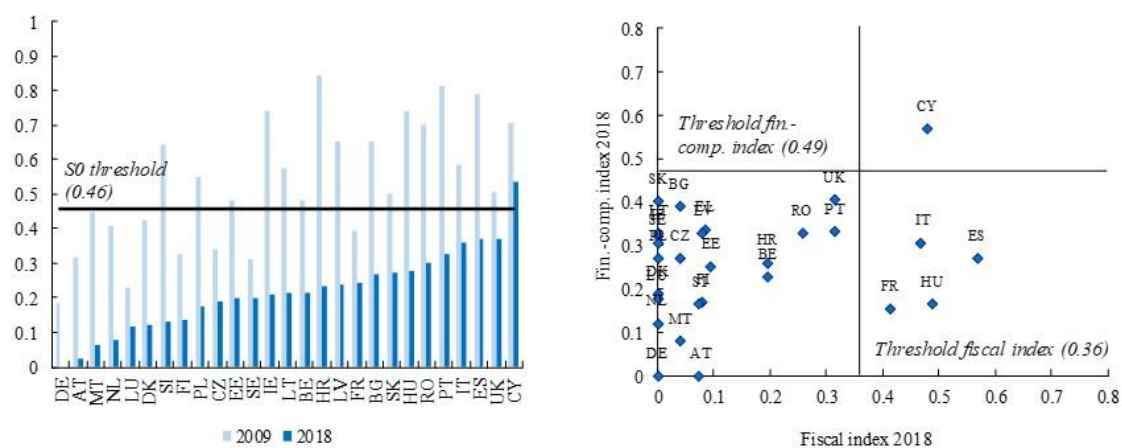
- *Short-term fiscal challenges*, through a combination of fiscal, financial and competitiveness indicators aiming at an 'early detection of fiscal stress'. The S0 indicator is an 'early-detection indicator', designed to highlight shorter-term (one-year horizon) risks of fiscal stress stemming from the fiscal, as well as the financial and competitiveness sides of the economy. A set of 25 fiscal and financial-competitiveness variables are used in the composite indicator S0. ⁽¹⁾If section 4 focuses mainly on medium- and long-term fiscal challenges, a first sub-section discusses these short-term fiscal challenges that are present in a few Member States.
- *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 Fiscal Sustainability Report 2018. ⁽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 2033.
- *Long-term fiscal challenges*, based on the joint use of the S2 sustainability indicator and the overall results of the DSA. The S2 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 primary balance needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path over an infinite horizon. Introduced with the Fiscal Sustainability Report 2018, the use of DSA results to assess overall long-term fiscal sustainability risks aims at prudently capturing risks linked to medium to high debt-to-GDP ratios (see Box 4.1 in the FSR 2018 for more explanations).

In addition to these key indicators, the Commission fiscal sustainability framework encompasses additional mitigating and aggravating risk factors that are analysed in its regular Fiscal Sustainability Report and Debt Sustainability Monitor (see for example chapter 5 of the FSR 2018).

⁽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, on the basis of risk thresholds (based on the observation of past episodes of 'fiscal stress' for relevant structural variables and their combinations).

⁽²⁾ For details about the sustainability risk classification and the methodology behind the Debt Sustainability Analysis (DSA), see European Commission (2019), 'Fiscal Sustainability Report 2018', European Economy, Institutional papers, No 94, EC, Brussels.

Graph 4.1: Short-term fiscal sustainability indicator (S0 indicator) and sub-indices



Source: European Commission

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

Turning to medium- and longer-term implications for fiscal sustainability, and 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-fiscal policy change scenario**, with the structural primary balance to GDP ratio kept constant at 2020 forecasted level as in the Commission 2019 spring forecast (reflecting a "no-fiscal policy change" assumption) (net of future **changes in ageing-related expenditure**).
- 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 the programme horizon, the structural primary balance as a share of GDP is kept constant (net of future **changes in ageing-related expenditure**).

Graph 4.2 shows the projected evolution for the government gross debt ratio (including the projected change in ageing-related expenditure), for the EU as a whole. The solid thick line shows the outcome for the COM no-fiscal policy change scenario under the assumption of no fiscal consolidation measures beyond those contained in the Commission 2019 spring forecast (structural primary balance to GDP ratio kept constant at forecasted 2020 level) and incorporates expected future ageing-related spending, as projected in the 2018 Ageing Report. ⁽³⁵⁾

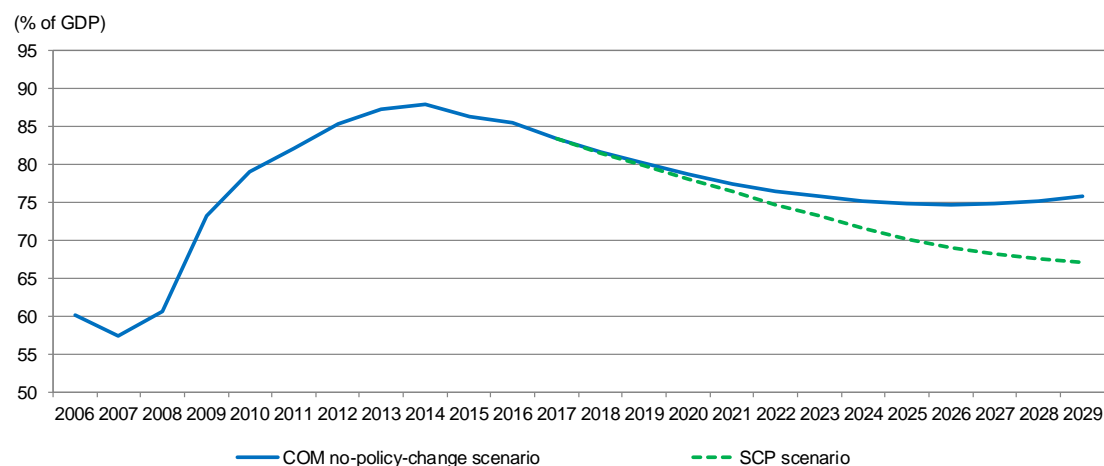
Government debt is expected to decrease until 2020 and beyond. According to the Commission 2019 spring forecast, government debt will continue to decrease and reach around 79% of GDP in 2020 in the EU as a whole. Given the sustained fiscal surplus until 2020 and the still negative snowball effects until 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. By the end of the projection horizon (2029), debt would reach less than 76% of GDP.

The debt path for the EU in the SCP scenario lies well below the path projected in the COM no-policy-change scenario (a difference of around 9 pps. of GDP between debt ratios in 2029). Indeed,

⁽³⁵⁾ 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.

the SCP scenario would lead to a more marked reduction in the government debt-to-GDP ratio with debt falling to around 67% of GDP by 2029 (dashed line).

Graph 4.2: Medium-term government debt projections for the EU-28 (in % of GDP)



Note: The medium-term projections are based on the Commission 2019 Spring forecast (up to 2020) and on the 2019 SCPs, the updated $t+10$ projections and the projections in the 2018 Ageing Report. The output gap is assumed to close in $t+5$. The inflation rate (GDP deflator) is assumed to converge 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). 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 2018 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 is assumed after the end of forecast or programme horizon.

Source: European Commission, 2019 SCPs

4.3. MEDIUM-TERM FISCAL SUSTAINABILITY CHALLENGES

Developments in the Commission no-policy-change scenario

The adjustment needed in the medium-term with respect to unchanged policies is calculated as the additional fiscal adjustment required up to five years ahead, in order to reach a debt-to-GDP ratio at 60% by 2033 (see Graph 4.3).⁽³⁶⁾ 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 2033 amounts to 1.9 pps. of GDP over the period 2021–2025 in the EU as a whole, i.e., an average annual fiscal consolidation effort of around 0.4 pp. per year. In other words, the structural primary balance in the EU should improve from a forecasted surplus of 0.5% of GDP in 2020 (structural balance of -1.3% in 2020) to a surplus of close to 2.4% in 2025.

According to the S1 indicator, 5 countries face *high risk* (BE, ES, FR, IT and PT), 4 countries face *medium risk* (HU, PL, RO and UK), and 18 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 countries (HR, CY, RO and UK) it worsens with the debt sustainability analysis pointing to additional risks (see Table 4.1).⁽³⁷⁾ Considering an alternative

⁽³⁶⁾ The base year is either the end of the forecast horizon (2020) or the end of the SCP horizon (country specific, with values between 2022 and 2023), depending on the scenario considered.

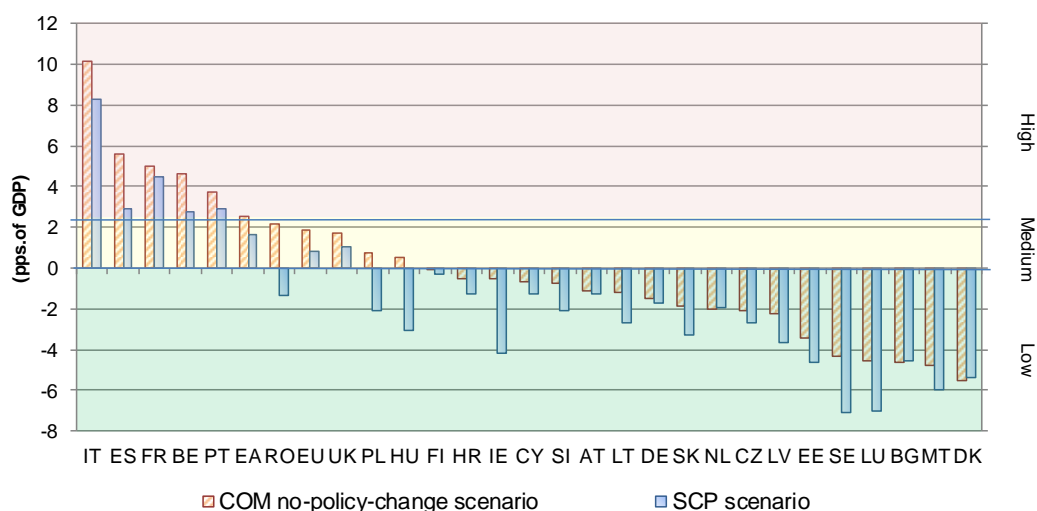
⁽³⁷⁾ For details about the sustainability risk classification and the methodology behind the Debt Sustainability Analysis (DSA), see European Commission (2019), 'Fiscal Sustainability Report 2018', *European Economy, Institutional papers*, No 94, EC, Brussels.

assumption for interest rates (based on financial markets' expectations, see Box 4.2) would drive down the value of the S1 indicator in almost all Member States, but would not change the medium-term risk classification.

Developments assuming implementation of the fiscal plans in the SCPs

If the fiscal plans in the SCPs were fully implemented and, additionally, not weakened after the end of the programme horizon, the fiscal gap would be reduced by around one half (0.8% of GDP instead of 1.9%) in the no-policy-change scenario. ⁽³⁸⁾ Consequently, risks would be reduced and according to the S1 indicator, 5 countries would face *high* risk, 1 country would face *medium* risk and 21 countries would face *low* risk. In the SCP scenario, 3 Member States would go to a lower risk category, respectively HU, PL and RO, moving from *medium* to *low* risk. Only in the cases of NL, BG and DK, the S1 indicator based on the SCPs would be higher than the one based on the Commission no-policy-change scenario, mainly as the result of the assumed lower structural primary surplus. This would not lead, however, to an unfavourable change in the risk category in any of the three countries.

Graph 4.3: The S1 indicator (fiscal adjustment required to reach a 60% public debt to GDP ratio by 2033, in pps. of GDP)



Source: European Commission and 2019 SCPs

4.4. LONG-TERM FISCAL CHALLENGES

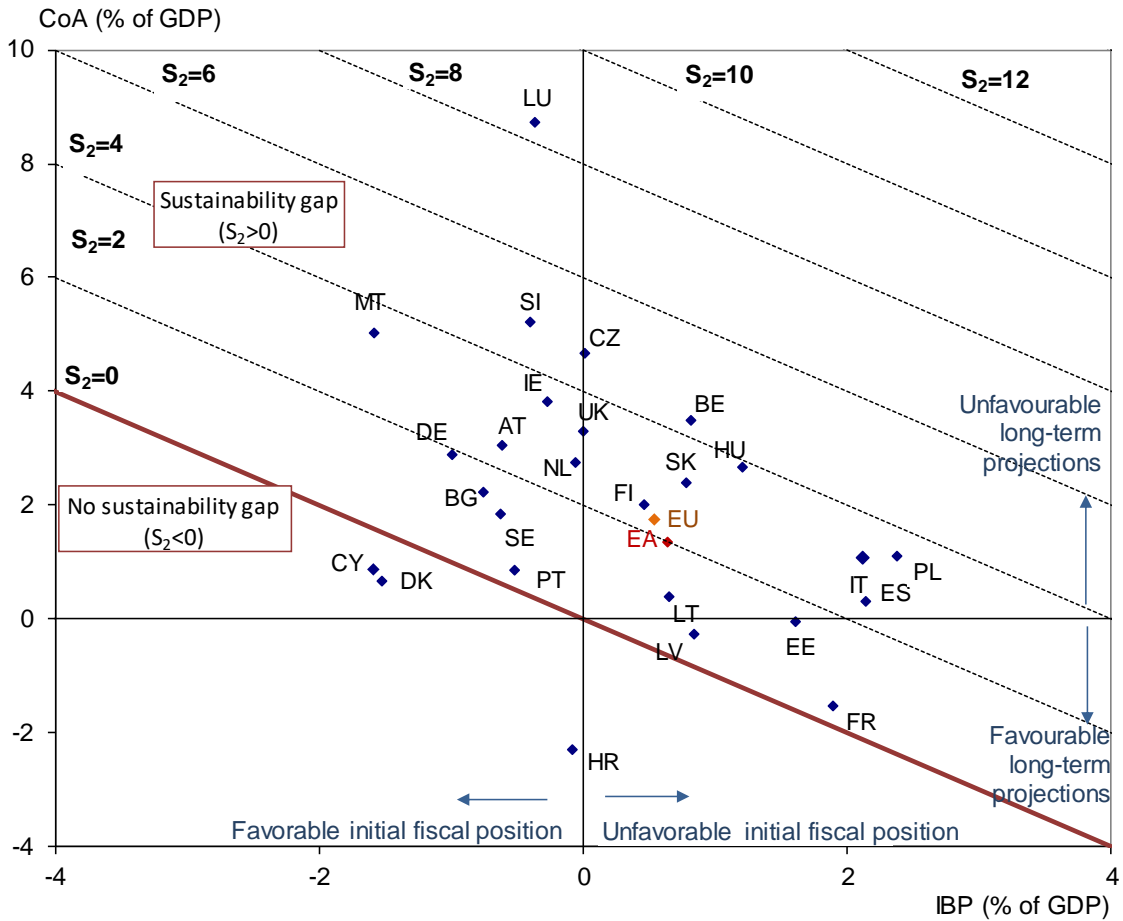
Developments in the Commission no-policy-change scenario

In the long term, the sustainability of the fiscal position is assessed by the gap relative to the primary balance required to stabilize debt and cover all the future changes in age-related expenditures. Overall, the EU as a whole has a long-term fiscal sustainability gap of 2.3 pps. of GDP. The cost of ageing (CoA), based on the 2018 Ageing Report projections, contributes by 1.7 pps. of GDP to the gap, and the initial budgetary position (IBP) by 0.5 pps. of GDP. Graph 4.4 shows the S2 sustainability indicator according to the COM no-policy-change scenario. For a significant number of countries (11 Member States) both the CoA and the IBP components contribute to the fiscal gap. Finally,

⁽³⁸⁾ As described in section 4.2, the SCP scenario is based on the macroeconomic and fiscal projections contained in Member States' fiscal plans. Beyond the SCP horizon, fiscal policy (before the adjustment as implied by the S1 indicator) is assumed to remain unchanged over the rest of the projection horizon.

the diagonal lines indicate the size of the sustainability gap. Among the Member States, 2 countries (LU and RO) face *high* risk according to the S2 indicator, 14 countries (BE, CZ, IE, ES, IT, HU, MT, NL, AT,

Graph 4.4: The S2 sustainability gap decomposed (in pps. of GDP)



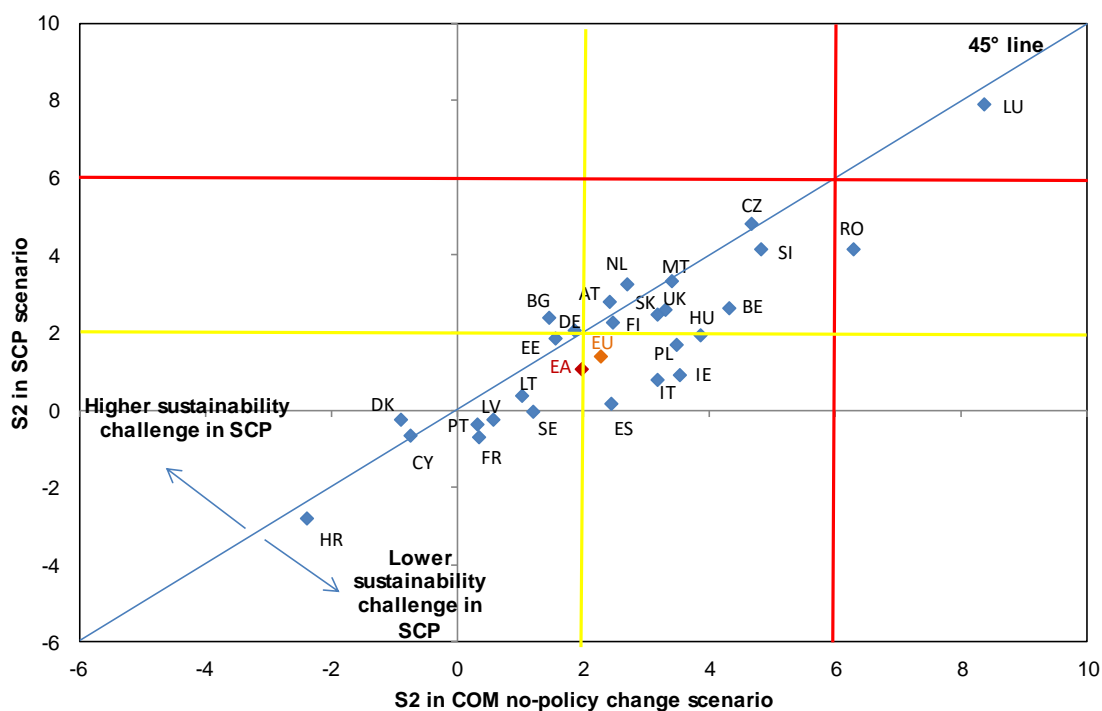
Note: The graph shows the initial budgetary position (IBP) on the horizontal axis and the long-term change in the fiscal position due to cost of ageing (CoA) on the vertical axis. A position to the left indicates a favourable IBP (i.e. if it is below zero, it means that the budgetary position supports fiscal sustainability). A position towards the bottom of the axis indicates a low long-term 'cost of ageing'.

Source: European Commission

PL, SI, SK, FI and UK) face *medium* risk, and 11 countries face *low* risk over the long-term. **When considering in addition the results of the DSA overall risk classification, long-term risks are found to be one step higher in 8 countries**, either from *low* to *medium* (FR, HR, CY and PT), or from *medium* to *high* (BE, ES, IT, and UK) (see Table 4.1).⁽³⁹⁾

⁽³⁹⁾ For details about the revised methodology behind the long-term sustainability risk classification, see Box 4.1 in European Commission (2019), 'Fiscal Sustainability Report 2018', *European Economy, Institutional papers*, No 94, EC, Brussels.

Graph 4.5: The S2 sustainability gap: 'COM no-policy-change' and 'SCP' scenarios (in pps. of GDP)



Source: European Commission and 2019 SCPs

Developments assuming implementation of the fiscal plans in the SCPs

Even assuming the full implementation of the fiscal plans in the SCPs, 13 Member States would still face significant sustainability gaps. Graph 4.5 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 governments' fiscal plans would contribute to ensuring fiscal sustainability. Under the assumption that the fiscal plans in the programmes are fully implemented, a large majority of 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 reach 1.4 pps. of GDP, i.e. slightly above half of the gap in the COM no-policy-change scenario. Even assuming the full implementation of the fiscal plans in the SCPs, 13 Member States would still have sustainability gaps of at least 2 pps. of GDP. In terms of risk classification, in the SCP scenario, 6 Member States would go to a lower risk category (IE, ES, IT, HU and PL from *medium* to *low* risk and RO from *high* to *medium* risk). In the cases of BG, CZ, DK, DE, EE, CY, NL, and AT, the S2 indicator, based on the SCPs, would reach a higher value than based on the Commission no-policy-change scenario, notably as the result of the assumed lower structural primary surplus. However, this would lead to an unfavourable change in the risk category only in the cases of BG and DE (from *low* to *medium* risk).

Table 4.1: Overall risk classification in the 2019 assessment round, COM no-policy-change scenario

	S0 Overall SHORT-TERM risk category	Overall MEDIUM-TERM risk category	S1 indicator - overall risk assessment	Debt sustainability analysis - overall risk assessment	S2 indicator - overall risk assessment	Overall LONG-TERM risk category
BE	LOW (0.22)	HIGH	HIGH (4.7)	HIGH	MEDIUM (4.3)	HIGH
BG	LOW (0.27)	LOW	LOW (-4.6)	LOW	LOW (1.5)	LOW
CZ	LOW (0.19)	LOW	LOW (-2.1)	LOW	MEDIUM (4.7)	MEDIUM
DK	LOW (0.12)	LOW	LOW (-5.5)	LOW	LOW (-0.9)	LOW
DE	LOW (0)	LOW	LOW (-1.5)	LOW	LOW (1.9)	LOW
EE	LOW (0.2)	LOW	LOW (-3.4)	LOW	LOW (1.6)	LOW
IE	LOW (0.21)	LOW	LOW (-0.5)	LOW	MEDIUM (3.5)	MEDIUM
ES	LOW (0.37)	HIGH	HIGH (5.6)	HIGH	MEDIUM (2.4)	HIGH
FR	LOW (0.24)	HIGH	HIGH (5)	HIGH	LOW (0.4)	MEDIUM
HR	LOW (0.24)	MEDIUM	LOW (-0.5)	MEDIUM	LOW (-2.4)	MEDIUM
IT	LOW (0.36)	HIGH	HIGH (10.2)	HIGH	MEDIUM (3.2)	HIGH
CY	HIGH (0.54)	MEDIUM	LOW (-0.7)	MEDIUM	LOW (-0.7)	MEDIUM
LV	LOW (0.24)	LOW	LOW (-2.2)	LOW	LOW (0.6)	LOW
LT	LOW (0.21)	LOW	LOW (-1.2)	LOW	LOW (1)	LOW
LU	LOW (0.12)	LOW	LOW (-4.6)	LOW	HIGH (8.4)	HIGH
HU	LOW (0.28)	MEDIUM	MEDIUM (0.5)	MEDIUM	MEDIUM (3.9)	MEDIUM
MT	LOW (0.06)	LOW	LOW (-4.8)	LOW	MEDIUM (3.4)	MEDIUM
NL	LOW (0.08)	LOW	LOW (-2)	LOW	MEDIUM (2.7)	MEDIUM
AT	LOW (0.03)	LOW	LOW (-1.1)	LOW	MEDIUM (2.4)	MEDIUM
PL	LOW (0.18)	MEDIUM	MEDIUM (0.7)	MEDIUM	MEDIUM (3.5)	MEDIUM
PT	LOW (0.33)	HIGH	HIGH (3.7)	HIGH	LOW (0.3)	MEDIUM
RO	LOW (0.3)	HIGH	MEDIUM (2.2)	HIGH	HIGH (6.3)	HIGH
SI	LOW (0.13)	LOW	LOW (-0.7)	LOW	MEDIUM (4.8)	MEDIUM
SK	LOW (0.27)	LOW	LOW (-1.9)	LOW	MEDIUM (3.2)	MEDIUM
FI	LOW (0.14)	LOW	LOW (0)	LOW	MEDIUM (2.5)	MEDIUM
SE	LOW (0.2)	LOW	LOW (-4.4)	LOW	LOW (1.2)	LOW
UK	LOW (0.37)	HIGH	MEDIUM (1.8)	HIGH	MEDIUM (3.3)	HIGH
EU	:	:	MEDIUM (1.9)	:	LOW (2.3)	:
EA	:	:	HIGH (2.6)	:	MEDIUM (2)	:

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

The S1 indicator: The following thresholds for the S1 indicator are 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, debt paths, 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 (2019), 'Fiscal Sustainability Report 2018', European Economy, Institutional papers, No 94, EC, Brussels.

The S2 indicator: The following thresholds for the S2 indicator are 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: European Commission

Box 4.2: Fiscal sustainability under market-based interest rate expectations assumptions

The rationale for considering an alternative interest rate assumption is to account better for the currently low and diverse interest rate environment. Financial assumptions are a key input of DSA frameworks, along with fiscal and macroeconomic assumptions. The baseline market interest rate assumptions entail a common convergence of long-term (short-term) interest rates to 5% (4%) by 2029. This implies that under the baseline, current interest rate conditions are reflected only at the beginning of the projection period by relying on actual data as a starting point for the projection, while a gradual convergence to the 5% common target is driving the (common) interest rate path over the medium-run.

Relying on market-based interest rate expectations to set country-specific convergence targets allows reflecting the current environment beyond the short-term ⁽¹⁾. Such market-based interest rate expectations' estimates are based on standard forward rate computations. Concretely, alternative targets for long-term interest rates are set equal to forward long-term interest rates ($lti_{10,t+10}$) at $t+10$, computed as follows ⁽²⁾ :

$$(1 + lti_{10,t+10})^{10} = \frac{(1 + lti_{20,t})^{20}}{(1 + lti_{10,t})^{10}}$$

where $lti_{20,t}$ and $lti_{10,t}$ stand for the 10 and 20 years maturity spot yields and $lti_{10,t+10}$ stands for the (forward) 10 years maturity yield at $t+10$. Computations use latest available market (monthly averaged) data – i.e. April 2019.

In turn, short-term interest rate targets are computed by applying a 0.8 scaling factor to the long-term interest rate targets. This factor reflects the standard slope of the euro area yield curve, a factor also retained under the current baseline – i.e. short-term baseline target (4%) is equal to 0.8 times the long-term baseline target (5%) ⁽³⁾ .

The resulting market-based interest rate targets imply a less sharp increase in interest rates and less convergence across countries over the projection horizon. Table 1 reveals that long-term interest rate targets are lower than under the baseline (5%) for all countries, except for Romania. The impact on short-term rates targets is similar, as those are set as a fraction of the long-term interest rate targets. However, in some cases however, notably Italy, the market-based long-term rate target remains not so far from the 5% assumed under the baseline.

The impact of using market-based interest rate targets on sustainability analysis varies across countries but leaves the risk assessment unchanged in all cases. Large impacts on the projected debt levels or on the S1 indicator concern countries with relatively high debt (e.g. IT, ES, PT) or with financing conditions expected, based on market data, to be substantially lower than those assumed under the baseline (e.g. DE, NL), while in some countries both aspects matter (e.g. BE, FR). Instead, in all cases, the S2 indicator appears little affected. This reflects the fact that this indicator relies on a substantially longer horizon, beyond T+10, which dampens

⁽¹⁾ ¹⁾ For a detailed discussion see Box 3.2 entitled “Using financial markets’ interest rate expectations to project interest rates: does it change the risk assessment?”, in *The 2018 Fiscal Sustainability Report*, European Economy Institutional Paper 094, January 2019.

⁽²⁾ Moreover, for countries for which yield curve data are missing, we rely on the following assumptions:

-**CY, LT**: the long-term spread vis-à-vis DE follows the same pattern as the average spread across available euro area countries (excl. DE & EL);

-**BG, HR**: the long term spread vis-à-vis DE follows the same pattern as the average spread across available non-euro area countries;

-**EE**: the forward interest rate is the average of the forward interest rate of LV and LT.

⁽³⁾ In this scenario, long-term (short-term) interest rates are further assumed to gradually converge to 5% (4%) by T+30, beyond 2029.

(Continued on the next page)

Box (continued)

which dampens the impact of change in assumption affecting data only up to T+10 ⁽⁴⁾). Table 1 also shows overall no impact on the risk assessment. Risk categories remain unchanged, except in the case of Cyprus. For the latter, a slight reduction in the projected debt-to-GDP by 2029, under the baseline, leads to a change in category for this criterion, reflecting a threshold effect. Yet, the overall assessment for Cyprus would remain unchanged as other scenarios and criteria continue to point at medium risk, even under the market-based interest rate assumption.

Graph 1 shows that for high debt countries (BE, CY, ES, FR, IT and PT) the impact of relying on this alternative interest rate assumption is not negligible, yet confirms the slight upward trend projected under a no-fiscal policy change assumption. The profile of the debt-to-GDP ratio projection for those countries posts a more benign surge by the end of the projection horizon under the market-based interest rate assumption. At the same time, even under the more favourable interest rate assumption used in this scenario, important debt-vulnerabilities would remain over the medium-term for those countries, calling for additional policy measures. A close monitoring of financial markets' developments is important. In particular, a further easing, or reversal of recent deterioration, in financing costs faced by some high debt countries would help ease even further the debt profile reported for those countries under the market-based interest rate assumption.

Overall, in terms of policy implications, the results point at an overall moderate impact of using interest rates' assumptions based on financial market expectations – notably in terms of risk classification – although impacts are larger for some countries. The latter are those (e.g. FR, BE) that tend to have higher debt, shorter average maturity and for which market expectations are particularly benign, substantially deviating from the assumed convergence, by the end of the horizon, to a common 5% nominal long-term interest rate target level ⁽⁵⁾ (e.g. DE, NL). Overall, such differentiated sensitivity vis-à-vis interest rate changes confirms the need for additional policy measures in high-debt countries, which could in turn help easing financial markets' pressures in some cases, and reduce further fiscal sustainability risks.

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- ⁽⁴⁾ The impact on the S2 indicator is also ambiguous as opposing effects are at play. While a lower interest rate assumption reduces the burden of the debt, it also reduces the discounting of the future cost of ageing, an important component in the S2 computations. Additionally, the level at which debt-to-GDP stabilises differs under the two interest rate assumptions. Overall, this suggests the need for caution when interpreting the small changes in the S2 indicator reported here.
- ⁽⁵⁾ For further discussions on differentiated sensitivities vis-à-vis interest rate changes, see also Box 2.2 entitled "The sensitivity of public debt to a rise in interest rates in EU countries", in *The 2017 Debt Sustainability Monitor*, European Economy Institutional Paper 071, January 2018.

(Continued on the next page)

Box (continued)

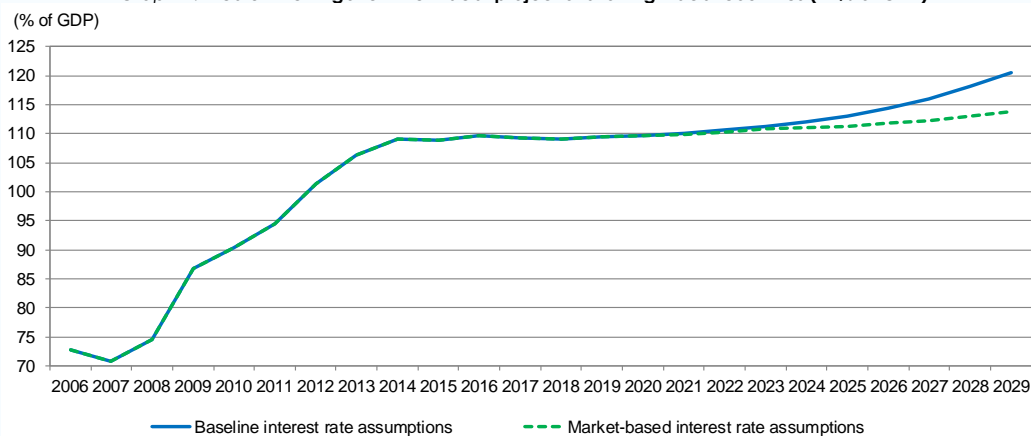
Table 1: Impact of alternative interest rate assumptions on debt-to-GDP, S1, S2 and long-term interest rate targets, in EU countries

	Debt-to-GDP			S1 indicator			S2 indicator			Market-based	
	Baseline	Alternative	Impact	Baseline	Alternative	Impact	Baseline	Alternative	Impact		
BE	103	96	-7.1	4.7	3.8	-0.9	4.3	4.2	-0.2	1.9	BE
BG	8	8	-0.2	-4.6	-5.4	-0.8	1.5	1.5	0.1	1.5	BG
CZ	32	30	-1.4	-2.1	-2.5	-0.4	4.7	4.7	0.0	3.4	CZ
DK	9	8	-1.1	-5.5	-6.5	-1.0	-0.9	-0.9	0.0	0.9	DK
DE	42	38	-4.6	-1.5	-2.6	-1.1	1.9	1.8	-0.1	1.1	DE
EE	16	15	-1.0	-3.4	-4.1	-0.7	1.6	1.6	0.0	2.1	EE
IE	50	47	-3.2	-0.5	-1.2	-0.7	3.5	3.5	0.0	2.0	IE
ES	111	105	-5.6	5.6	5.0	-0.7	2.4	2.2	-0.2	2.9	ES
FR	106	98	-7.9	5.0	4.0	-1.0	0.4	-0.1	-0.5	1.7	FR
HR	59	55	-3.6	-0.5	-1.2	-0.7	-2.4	-2.7	-0.3	2.8	HR
IT	153	149	-4.8	10.2	9.7	-0.5	3.2	2.9	-0.3	4.0	IT
CY	61	59	-2.4	-0.7	-1.3	-0.6	-0.7	-0.9	-0.2	3.0	CY
LV	32	31	-1.8	-2.2	-2.8	-0.6	0.6	0.5	-0.1	2.4	LV
LT	38	35	-3.1	-1.2	-2.0	-0.8	1.0	0.9	-0.2	1.8	LT
LU	10	10	-0.1	-4.6	-5.1	-0.6	8.4	8.7	0.3	1.8	LU
HU	64	61	-2.7	0.5	0.1	-0.5	3.9	3.8	0.0	3.7	HU
MT	17	16	-0.7	-4.8	-5.4	-0.6	3.4	3.5	0.1	2.4	MT
NL	36	33	-3.3	-2.0	-3.0	-1.0	2.7	2.7	0.0	0.9	NL
AT	49	46	-2.8	-1.1	-1.8	-0.7	2.4	2.4	0.0	1.6	AT
PL	58	56	-2.1	0.7	0.4	-0.4	3.5	3.4	0.0	3.6	PL
PT	102	98	-4.2	3.7	3.2	-0.6	0.3	0.0	-0.3	3.1	PT
RO	66	67	0.7	2.2	2.3	0.1	6.3	6.3	0.0	5.5	RO
SI	47	44	-2.7	-0.7	-1.4	-0.6	4.8	4.9	0.0	2.4	SI
SK	40	38	-1.8	-1.9	-2.5	-0.6	3.2	3.2	0.0	2.1	SK
FI	56	54	-2.3	0.0	-0.6	-0.5	2.5	2.5	0.0	1.3	FI
SE	17	17	-0.4	-4.4	-5.0	-0.6	1.2	1.2	0.0	1.6	SE
UK	78	74	-4.5	1.8	1.1	-0.7	3.3	3.2	-0.1	2.2	UK

(1) Colours in the table correspond to fiscal sustainability risk categories: low (green), medium (yellow) and high (red).

Source: European Commission

Graph 1. Medium-term government debt projections for high-debt countries (in % of GDP)



Source: European Commission

ANNEX 1

Table A1.1: Real GDP growth (%)

	2019 Stability and Convergence Programmes						Commission 2019 spring forecast				Difference compared to forecast (red means higher in programme)		
	2018	2019	2020	2021	2022	2023	2017	2018	2019	2020	2018	2019	2020
BE	1.4	1.3	1.4	1.4	1.2	n.a.	1.7	1.4	1.2	1.2	0.0	0.1	0.2
CY	3.9	3.7	3.2	3.0	3.0	n.a.	4.5	3.9	3.1	2.7	0.0	0.6	0.5
DE	1 2/4	1	1 2/4	1	1	1	2.2	1.4	0.5	1.5	0.0	0.5	0.1
EE	3.9	3.1	2.7	2.7	2.6	2.5	4.9	3.9	2.8	2.4	0.0	0.3	0.3
EL	1.9	2.3	2.3	2.1	2.0	n.a.	1.5	1.9	2.2	2.2	0.0	0.1	0.1
IE	6.7	3.9	3.3	2.4	2.5	2.6	7.2	6.7	3.8	3.4	0.0	0.1	-0.1
ES	2.6	2.2	1.9	1.8	1.8	n.a.	3.0	2.6	2.1	1.9	0.0	0.1	0.1
FR	1.6	1.4	1.5	1.4	1.4	n.a.	2.2	1.6	1.3	1.5	0.0	0.1	0.0
IT	0.9	0.2	0.8	0.8	0.8	n.a.	1.7	0.9	0.1	0.7	0.0	0.1	0.1
LV	4.8	3.2	3.0	2.9	2.9	n.a.	4.6	4.8	3.1	2.8	0.0	0.1	0.2
LT	3.4	2.6	2.4	2.3	2.3	n.a.	4.1	3.4	2.7	2.4	0.0	-0.1	0.0
LU	3.0	3.0	3.8	3.5	3.0	2.5	1.5	2.6	2.5	2.6	0.4	0.5	1.2
MT	6.6	6.2	5.7	5.1	5.0	n.a.	6.7	6.6	5.5	4.8	0.0	0.7	0.9
NL	2.7	1.5	1.5	1.2	1.0	n.a.	2.9	2.7	1.6	1.6	0.0	-0.1	-0.1
AT	2.7	1.7	1.8	1.7	1.6	1.4	2.6	2.7	1.5	1.6	0.0	0.2	0.1
PT	2.1	1.9	1.9	2.0	2.0	2.1	2.8	2.1	1.7	1.7	0.0	0.2	0.2
SI	4.5	3.4	3.1	2.8	2.7	n.a.	4.9	4.5	3.1	2.8	0.0	0.3	0.3
SK	4.1	4.0	3.7	3.2	2.5	n.a.	3.2	4.1	3.8	3.4	0.0	0.3	0.3
FI	2.3	1.7	1.4	1.2	1.0	n.a.	2.7	2.3	1.6	1.2	0.0	0.1	0.2
EA	1.9	1.4	1.6	1.4	1.3	n.a.	2.4	1.9	1.2	1.5	0.0	0.2	0.1
BG	3.1	3.4	3.3	3.3	3.3	n.a.	3.8	3.1	3.3	3.4	0.0	0.1	-0.1
CZ	2.9	2.4	2.4	2.3	2.2	n.a.	4.4	2.9	2.6	2.4	0.0	-0.2	0.0
DK	1.7	1.7	1.6	1.5	1.1	n.a.	2.3	1.4	1.7	1.6	0.3	0.0	0.0
HR	2.6	2.5	2.4	2.3	2.3	n.a.	2.9	2.6	2.6	2.5	0.0	-0.1	-0.1
HU	4.9	4.0	4.0	4.1	4.2	4.0	4.1	4.9	3.7	2.8	0.0	0.3	1.2
RO	4.1	5.5	5.7	5.0	5.0	n.a.	7.0	4.1	3.3	3.1	0.0	2.2	2.6
PL	5.1	4.0	3.7	3.4	3.3	n.a.	4.8	5.1	4.2	3.6	0.0	-0.2	0.1
SE	2.3	1.6	1.6	1.6	2.0	n.a.	2.1	2.3	1.4	1.6	0.0	0.2	0.0
UK	1.4	1.2	1.4	1.6	1.6	1.6	1.7	1.5	1.1	0.9	-0.1	0.1	0.5
EU	2.0	1.5	1.7	1.6	1.6	n.a.	2.5	2.0	1.3	1.6	0.0	0.2	0.2

Note: EU averages are based on UK Fiscal year data.

Source: European Commission based on Commission 2019 spring forecast and 2019 SCPs

Table A1.2: Output gap (% of pot. GDP)

	2019 Stability and Convergence Programmes						Commission 2019 spring forecast				Difference compared to forecast (red means higher in programme)		
	2018	2019	2020	2021	2022	2023	2017	2018	2019	2020	2018	2019	2020
BE	0.2	0.2	0.2	0.2	0.2	0.0	0.3	0.2	0.2	0.1	0.0	0.0	0.1
CY	2.1	3.0	3.1	3.1	3.2	0.0	0.8	2.8	3.8	4.3	-0.6	-0.7	-1.2
DE	0.5	0.1	0.3	0.1	0.0	0.0	0.9	0.7	-0.2	-0.1	-0.2	0.3	0.4
EE	3.2	2.9	2.6	2.6	2.7	2.8	2.7	3.3	2.8	2.2	-0.1	0.1	0.5
EL	-6.4	-4.1	-2.1	-0.5	0.8	0.0	-8.9	-6.4	-4.0	-1.9	0.0	-0.1	-0.2
IE	2.8	2.4	1.7	0.5	-0.2	-0.8	1.2	2.8	2.2	1.7	0.1	0.2	0.0
ES	0.8	1.4	1.6	1.9	2.2	0.0	-0.5	0.9	1.6	2.0	-0.1	-0.2	-0.5
FR	0.3	0.4	0.5	0.6	0.8	0.0	0.0	0.4	0.5	0.7	0.0	-0.1	-0.2
IT	-0.2	-0.3	-0.2	-0.1	0.0	0.0	-0.5	-0.1	-0.3	-0.1	0.0	0.0	-0.1
LV	2.9	2.1	0.9	0.2	-0.2	0.0	1.7	2.8	2.2	1.3	0.0	-0.1	-0.3
LT	3.7	2.7	1.4	0.5	0.0	0.0	3.0	3.6	3.1	2.1	0.0	-0.3	-0.7
LU	0.7	1.0	1.6	1.8	1.8	1.5	-0.2	0.6	1.0	1.3	0.1	-0.1	0.3
MT	0.8	0.7	0.1	-0.1	0.0	0.0	1.1	1.3	1.1	0.3	-0.5	-0.4	-0.3
NL	1.1	0.9	0.7	0.4	0.1	0.0	0.2	1.1	1.0	0.9	0.0	-0.1	-0.2
AT	0.9	0.7	0.6	0.2	0.1	-0.1	0.1	1.0	0.7	0.4	-0.1	0.0	0.1
PT	0.9	0.9	0.6	0.5	0.7	0.8	0.7	1.2	1.3	1.4	-0.3	-0.4	-0.8
SI	3.3	3.4	3.0	1.9	0.6	0.0	1.3	3.3	3.4	2.8	0.1	0.0	0.2
SK	1.2	1.8	1.9	1.6	0.9	0.0	0.4	1.5	2.1	2.3	-0.3	-0.3	-0.4
FI	0.5	0.6	0.4	0.5	0.5	0.0	-0.3	0.7	0.9	0.8	-0.1	-0.3	-0.4
EA	0.4	0.4	0.5	0.4	0.5	0.0	0.1	0.5	0.4	0.5	-0.1	0.0	0.0
BG	0.2	0.3	0.4	0.5	0.8	0.0	0.1	0.2	0.6	1.3	0.1	-0.3	-0.9
CZ	1.3	0.7	0.3	0.1	0.0	0.0	1.3	1.2	0.8	0.3	0.0	-0.1	0.0
DK	-0.5	-0.4	-0.3	-0.1	-0.3	0.0	-0.1	-0.5	-0.5	-0.7	-0.1	0.2	0.4
HR	1.4	1.8	1.8	1.7	1.9	0.0	0.5	1.2	2.1	2.4	0.2	-0.3	-0.6
HU	3.0	2.5	2.1	1.6	1.3	1.0	1.8	3.3	3.3	2.5	-0.4	-0.8	-0.4
RO	-0.4	0.1	0.7	0.7	0.9	0.0	0.8	0.9	0.6	0.2	-1.4	-0.5	0.4
PL	2.2	2.2	1.8	1.3	0.8	0.0	0.8	2.1	2.3	2.0	0.1	-0.1	-0.2
SE	0.4	0.0	-0.4	-0.6	-0.3	0.0	0.3	0.5	-0.1	-0.4	-0.1	0.1	0.0
UK	0.9	0.3	0.0	0.0	0.0	-0.1	1.0	0.7	0.5	0.3	0.1	-0.1	-0.2
EU	0.6	0.4	0.4	0.4	0.4	0.0	0.2	0.6	0.4	0.5	-0.1	0.0	-0.1

Note: For SCPs: recalculated by the European Commission on the basis of the information in the programme according to the commonly-agreed methodology. EU averages are based on UK Fiscal year data.

Source: European Commission based on Commission 2019 spring forecast and 2019 SCPs

Table A1.3: General government balance (% of GDP)

	2019 Stability and Convergence Programmes						Commission 2019 spring forecast				Difference compared to forecast (red means higher in programme)		
	2018	2019	2020	2021	2022	2023	2017	2018	2019	2020	2018	2019	2020
BE	-0.7	-0.8	-0.2	0.1	0.0	n.a.	-0.8	-0.7	-1.3	-1.5	0.0	0.5	1.3
CY	-4.8	3.0	2.6	2.4	2.2	n.a.	1.8	-4.8	3.0	2.8	0.0	0.0	-0.3
DE	1 3/4	3/4	3/4	2/4	2/4	0.6	1.0	1.7	1.0	0.8	0.0	-0.1	0.0
EE	-0.5	-0.2	-0.3	-0.5	-0.7	-0.2	-0.4	-0.6	-0.3	-0.5	0.1	0.1	0.2
EL	1.1	1.6	1.1	1.3	1.7	n.a.	0.7	1.1	0.5	-0.1	0.0	1.1	1.2
IE	0.0	0.2	0.4	0.7	1.0	1.3	-0.3	0.0	0.0	0.3	0.0	0.2	0.1
ES	-2.5	-2.0	-1.1	-0.4	0.0	n.a.	-3.1	-2.5	-2.3	-2.0	0.0	0.3	0.9
FR	-2.5	-3.1	-2.0	-1.6	-1.2	n.a.	-2.8	-2.5	-3.1	-2.2	0.0	0.0	0.2
IT	-2.1	-2.4	-2.1	-1.8	-1.5	n.a.	-2.4	-2.1	-2.5	-3.5	0.0	0.1	1.4
LV	-1.0	-0.5	-0.4	-0.2	-0.3	n.a.	-0.6	-1.0	-0.6	-0.6	0.0	0.1	0.2
LT	0.7	0.4	0.2	0.1	0.1	n.a.	0.5	0.7	0.3	0.0	0.0	0.1	0.2
LU	2.6	1.0	1.4	1.5	2.0	2.2	1.4	2.4	1.4	1.1	0.2	-0.4	0.2
MT	2.0	0.9	1.0	1.1	1.1	n.a.	3.4	2.0	1.1	0.9	0.0	-0.2	0.1
NL	1.5	1.2	0.8	0.2	0.0	n.a.	1.2	1.5	1.4	0.8	0.0	-0.2	0.0
AT	0.1	0.3	0.2	0.2	0.0	0.0	-0.8	0.1	0.3	0.2	0.0	0.0	0.0
PT	-0.5	-0.2	0.3	0.9	0.7	0.7	-3.0	-0.5	-0.4	-0.1	0.0	0.2	0.4
SI	0.7	0.9	1.0	1.1	1.2	n.a.	0.0	0.7	0.7	0.9	0.0	0.3	0.0
SK	-0.7	0.0	0.0	0.0	0.0	n.a.	-0.8	-0.7	-0.5	-0.6	0.0	0.5	0.6
FI	-0.6	-0.3	0.0	-0.1	-0.3	n.a.	-0.8	-0.7	-0.4	-0.2	0.1	0.1	0.1
EA	-0.5	-0.9	-0.5	-0.4	-0.3	n.a.	-1.0	-0.5	-0.9	-0.9	0.0	0.0	0.4
BG	2.0	-0.3	0.4	0.2	0.1	n.a.	1.2	2.0	0.8	1.0	0.0	-1.1	-0.6
CZ	0.9	0.3	-0.2	-0.3	-0.5	n.a.	1.6	0.9	0.2	-0.2	0.0	0.1	0.0
DK	0.2	-0.1	-0.1	-0.2	0.0	n.a.	1.4	0.5	0.6	-0.1	-0.3	-0.6	-0.1
HR	0.2	-0.3	0.2	0.4	0.8	n.a.	0.8	0.2	0.1	0.5	0.0	-0.5	-0.4
HU	-2.2	-1.8	-1.5	-1.2	-0.5	0.0	-2.2	-2.2	-1.8	-1.6	0.0	0.0	0.1
RO	-3.0	-2.8	-2.7	-2.4	-2.0	n.a.	-2.7	-3.0	-3.5	-4.7	0.0	0.7	2.0
PL	-0.4	-1.7	0.2	-0.3	-0.6	n.a.	-1.5	-0.4	-1.6	-1.4	0.0	-0.1	1.6
SE	0.7	0.6	0.7	1.1	1.9	n.a.	1.4	0.9	0.4	0.4	-0.2	0.2	0.3
UK	-1.2	-1.4	-1.1	-1.1	-0.7	-0.6	-2.1	-1.3	-1.5	-1.2	0.1	0.1	0.1
EU	-0.6	-0.9	-0.6	-0.5	-0.3	n.a.	-1.0	-0.6	-1.0	-1.0	0.0	0.0	0.4

Note: EU averages are based on UK Fiscal year data.

Source: European Commission based on Commission 2019 spring forecast and 2019 SCPs

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

	2019 Stability and Convergence Programmes						Commission 2019 spring forecast				Difference compared to forecast (red means higher in programme)		
	2018	2019	2020	2021	2022	2023	2017	2018	2019	2020	2018	2019	2020
BE	51.7	51.1	51.3	51.3	51.3	n.a.	51.3	52.4	52.3	52.5	-0.7	-1.2	-1.2
CY	39.7	40.7	40.9	40.6	40.1	n.a.	39.1	44.7	38.0	39.0	-5.0	2.7	1.9
DE	45 2/4	45 2/4	45 1/4	45	45	45 1/4	45.0	43.9	44.6	44.7	1.7	0.8	0.6
EE	39.1	40.0	39.5	38.8	37.8	37.1	38.9	39.5	39.9	39.9	-0.4	0.1	-0.4
EL	48.0	47.8	45.9	45.1	44.2	n.a.	48.1	46.7	46.7	45.6	1.3	1.1	0.3
IE	25.8	25.6	25.2	25.1	25.1	n.a.	26.0	25.7	25.6	25.0	0.1	0.0	0.2
ES	38.9	39.1	39.8	40.3	40.7	n.a.	37.9	41.3	41.2	41.0	-2.5	-2.1	-1.1
FR	53.5	52.4	52.3	52.0	51.7	n.a.	53.6	56.0	55.5	54.4	-2.5	-3.1	-2.1
IT	46.4	46.5	47.1	47.0	46.6	n.a.	46.5	48.6	49.2	49.8	-2.2	-2.7	-2.7
LV	37.5	36.2	35.9	35.4	34.9	n.a.	37.2	38.5	37.8	37.4	-1.0	-1.6	-1.5
LT	34.7	36.0	36.0	35.9	35.6	n.a.	33.6	34.0	34.4	34.9	0.7	1.6	1.1
LU	45.9	45.0	45.0	45.0	45.0	45.2	44.4	43.1	43.8	44.3	2.8	1.1	0.7
MT	38.8	38.1	36.7	35.7	35.2	n.a.	39.2	36.8	37.1	37.1	2.0	0.9	-0.4
NL	43.8	44.3	43.9	43.3	43.2	n.a.	43.7	42.2	42.6	42.8	1.6	1.7	1.1
AT	48.6	48.3	47.7	47.1	46.6	46.3	48.4	48.5	48.0	47.7	0.1	0.2	0.0
PT	43.5	43.8	43.7	43.9	43.2	43.0	42.7	44.0	44.2	43.9	-0.5	-0.5	-0.3
SI	43.1	43.2	42.6	41.8	41.4	n.a.	43.2	42.4	42.5	42.1	0.7	0.7	0.5
SK	39.9	39.1	38.4	37.9	37.7	n.a.	39.4	40.6	40.4	40.2	-0.7	-1.3	-1.8
FI	52.5	52.3	52.2	52.0	51.9	n.a.	53.4	53.1	52.8	52.6	-0.6	-0.5	-0.4
EA	46.3	46.0	46.0	45.8	45.6	n.a.	46.1	46.8	47.0	46.8	0.5	-0.9	-0.7
BG	36.8	37.7	37.3	36.9	36.1	n.a.	36.2	34.8	37.0	36.7	2.0	0.7	0.6
CZ	41.7	41.5	41.3	41.2	41.2	n.a.	40.5	40.8	41.7	41.9	0.9	-0.2	-0.6
DK	50.5	49.6	49.1	49.1	49.2	n.a.	52.6	51.4	51.1	51.5	-0.9	-1.5	-2.4
HR	46.6	47.0	46.9	46.4	46.2	n.a.	46.1	46.4	46.7	46.1	0.2	0.3	0.7
HU	44.2	44.6	43.3	41.9	40.2	39.4	44.7	46.5	46.4	45.6	-2.3	-1.8	-2.3
RO	32.0	33.8	33.8	33.5	33.9	n.a.	30.9	35.0	36.1	38.0	-3.0	-2.3	-4.2
PL	41.2	41.7	43.0	41.8	40.7	n.a.	39.7	41.5	42.6	42.6	-0.3	-0.9	0.4
SE	50.5	49.9	49.7	49.6	49.4	n.a.	50.9	49.9	49.8	49.5	0.6	0.1	0.2
UK	37.0	36.8	36.9	36.7	37.0	37.1	38.6	38.9	39.1	39.4	-1.9	-2.3	-2.5
EU	44.6	44.4	44.4	44.2	44.0	n.a.	44.7	45.3	45.5	45.4	-0.7	-1.1	-1.0

Note: EU averages are based on UK Fiscal year data.

Source: European Commission based on Commission 2019 spring forecast and 2019 SCPs

Table A1.5: General government total expenditure (% of GDP)

	2019 Stability and Convergence Programmes						Commission 2019 spring forecast				Difference compared to forecast (red means higher in programme)		
	2018	2019	2020	2021	2022	2023	2017	2018	2019	2020	2018	2019	2020
BE	52.4	51.9	51.4	51.3	51.3	n.a.	52.1	52.4	52.3	52.5	0.0	-0.4	-1.1
CY	44.5	37.7	38.3	38.2	38.0	n.a.	37.4	44.7	38.0	39.0	-0.3	-0.3	-0.7
DE	43 3/4	44 2/4	44 2/4	44 2/4	44 2/4	44 2/4	43.9	43.9	44.6	44.7	0.0	0.0	-0.1
EE	39.5	40.2	39.7	39.3	38.5	37.3	39.3	39.5	39.9	39.9	0.0	0.3	-0.2
EL	46.9	46.2	44.8	43.8	42.5	n.a.	47.3	46.7	46.7	45.6	0.2	-0.5	-0.8
IE	25.7	25.4	24.8	24.4	24.1	n.a.	26.3	25.7	25.6	25.0	0.0	-0.2	-0.2
ES	41.3	41.1	41.0	40.7	40.7	n.a.	41.0	41.3	41.2	41.0	0.0	-0.1	0.0
FR	56.0	55.5	54.3	53.6	53.0	n.a.	56.4	56.0	55.5	54.4	0.0	0.0	-0.1
IT	48.6	48.9	49.1	48.8	48.5	n.a.	48.9	48.6	49.2	49.8	0.0	-0.3	-0.7
LV	38.5	36.7	36.4	35.6	35.2	n.a.	37.8	38.5	37.8	37.4	0.0	-1.1	-1.0
LT	34.0	35.5	35.9	35.9	35.5	n.a.	33.1	34.0	34.4	34.9	0.0	1.1	1.0
LU	43.3	43.9	43.6	43.5	43.0	43.0	43.0	43.1	43.8	44.3	0.2	0.1	-0.7
MT	36.8	37.2	35.7	34.7	34.1	n.a.	35.7	36.8	37.1	37.1	0.0	0.0	-1.4
NL	42.2	43.0	43.1	43.1	43.3	n.a.	42.5	42.2	42.6	42.8	0.0	0.4	0.3
AT	48.5	47.9	47.5	46.9	46.6	46.3	49.2	48.5	48.0	47.7	0.0	-0.1	-0.2
PT	44.0	43.9	43.4	43.0	42.6	42.4	45.7	44.0	44.2	43.9	0.0	-0.3	-0.5
SI	42.4	42.2	41.6	40.7	40.2	n.a.	43.2	42.4	42.5	42.1	0.0	-0.2	-0.4
SK	40.6	39.1	38.4	37.9	37.7	n.a.	40.2	40.6	40.4	40.2	0.0	-1.3	-1.8
FI	53.1	52.6	52.2	52.0	52.2	n.a.	54.2	53.1	52.8	52.6	0.0	-0.3	-0.4
EA	46.8	46.9	46.5	46.2	46.0	n.a.	47.0	46.8	47.0	46.8	0.0	-0.1	-0.3
BG	34.8	38.0	36.9	36.7	36.0	n.a.	35.0	34.8	37.0	36.7	0.0	1.0	0.2
CZ	40.8	41.2	41.5	41.6	41.7	n.a.	38.9	40.8	41.7	41.9	0.0	-0.5	-0.4
DK	50.3	49.7	49.2	49.3	49.2	n.a.	51.2	51.4	51.1	51.5	-1.1	-1.4	-2.3
HR	46.4	47.3	46.7	46.0	45.4	n.a.	45.3	46.4	46.7	46.1	0.0	0.6	0.6
HU	46.5	46.4	44.8	43.1	40.7	39.4	46.9	46.5	46.4	45.6	0.0	0.0	-0.8
RO	35.0	36.6	36.4	36.0	35.9	n.a.	33.6	35.0	36.1	38.0	0.0	0.5	-1.6
PL	41.5	43.3	42.8	42.1	41.3	n.a.	41.2	41.5	42.6	42.6	0.0	0.7	0.2
SE	49.8	49.3	49.0	48.5	47.6	n.a.	49.4	49.9	49.8	49.5	-0.1	-0.5	-0.5
UK	38.2	38.3	38.0	37.8	37.7	37.7	41.1	40.6	40.9	40.9	-2.4	-2.6	-2.9
EU	45.2	45.3	45.0	44.6	44.4	n.a.	45.8	45.6	45.8	45.7	-0.4	-0.5	-0.7

Note: EU averages are based on UK Fiscal year data.

Source: European Commission based on Commission 2019 spring forecast and 2019 SCPs

Table A1.6: Structural balance (% of pot. GDP)

	2019 Stability and Convergence Programmes						Commission 2019 spring forecast				Difference compared to forecast (red means higher in programme)		
	2018	2019	2020	2021	2022	2023	2017	2018	2019	2020	2018	2019	2020
BE	-1.0	-0.9	-0.3	-0.1	-0.1	n.a.	-1.4	-1.4	-1.4	-1.8	0.4	0.5	1.4
CY	2.3	1.5	1.0	0.8	0.6	n.a.	1.3	2.0	1.1	0.7	0.3	0.4	0.3
DE	1.6	0.8	0.6	0.5	0.4	0.6	0.8	1.6	1.1	0.8	0.0	-0.3	-0.2
EE	-1.9	-1.5	-1.6	-1.8	-2.0	-1.5	-1.7	-2.2	-1.7	-1.5	0.2	0.2	0.0
EL	4.8	3.1	2.0	1.5	1.3	n.a.	5.1	5.0	1.9	0.8	-0.2	1.1	1.2
IE	-1.6	-1.0	-0.5	0.4	1.1	1.7	-0.9	-1.4	-1.2	-0.5	-0.2	0.2	0.1
ES	-2.6	-2.7	-2.1	-1.6	-1.3	n.a.	-2.7	-2.7	-2.9	-3.2	0.1	0.2	1.2
FR	-2.5	-2.3	-2.2	-2.0	-1.7	n.a.	-2.7	-2.6	-2.6	-2.5	0.0	0.2	0.3
IT	-2.1	-2.3	-2.1	-1.8	-1.6	n.a.	-2.1	-2.2	-2.4	-3.6	0.1	0.1	1.5
LV	-2.1	-1.4	-0.8	-0.3	-0.2	n.a.	-1.2	-2.1	-1.6	-1.1	0.0	0.3	0.3
LT	-0.8	-0.8	-0.4	-0.1	0.1	n.a.	-0.8	-0.8	-1.0	-0.9	0.0	0.2	0.5
LU	2.3	0.6	0.6	0.6	1.2	1.5	1.5	2.1	0.9	0.5	0.1	-0.3	0.1
MT	1.5	0.6	0.9	1.1	1.1	n.a.	3.1	1.4	0.6	0.7	0.1	0.0	0.2
NL	0.8	0.4	0.5	-0.1	-0.2	n.a.	0.6	0.8	0.7	0.2	0.0	-0.3	0.2
AT	-0.4	-0.1	-0.1	0.1	0.0	0.1	-0.8	-0.5	-0.1	0.0	0.0	0.0	-0.1
PT	-0.2	-0.1	0.3	0.4	0.3	0.2	-1.3	-0.4	-0.5	-0.5	0.2	0.4	0.8
SI	-0.7	-0.6	-0.3	0.2	0.8	n.a.	-0.5	-0.7	-0.8	-0.3	0.0	0.2	-0.1
SK	-1.1	-0.7	-0.7	-0.6	-0.3	n.a.	-0.9	-1.3	-1.3	-1.4	0.1	0.6	0.7
FI	-0.8	-0.7	-0.3	-0.4	-0.6	n.a.	-0.7	-1.0	-1.0	-0.6	0.2	0.3	0.3
EA	-0.6	-0.9	-0.8	-0.7	-0.6	n.a.	-0.9	-0.7	-0.9	-1.2	0.0	0.0	0.5
BG	1.9	-0.4	0.3	0.0	-0.1	n.a.	1.1	1.9	0.7	0.6	0.0	-1.0	-0.3
CZ	0.5	0.0	-0.3	-0.4	-0.5	n.a.	1.0	0.4	-0.1	-0.4	0.1	0.2	0.0
DK	0.9	0.9	1.1	1.0	0.8	n.a.	1.5	0.8	0.9	1.0	0.1	0.1	0.1
HR	0.2	-0.8	-0.5	-0.4	-0.1	n.a.	0.6	-0.3	-0.8	-0.5	0.6	0.0	0.0
HU	-3.5	-3.0	-2.5	-1.9	-1.1	-0.4	-3.4	-3.7	-3.3	-2.7	0.2	0.3	0.3
RO	-2.6	-2.7	-2.9	-2.6	-2.3	n.a.	-2.9	-3.0	-3.6	-4.8	0.4	0.9	1.9
PL	-1.5	-2.8	-1.8	-1.1	-1.1	n.a.	-1.9	-1.4	-2.8	-3.0	-0.1	0.0	1.2
SE	0.5	0.6	0.9	1.4	2.1	n.a.	1.2	0.6	0.5	0.6	-0.2	0.2	0.3
UK	-1.7	-1.6	-1.1	-1.1	-0.7	-0.6	-2.7	-1.7	-1.7	-1.3	0.1	0.1	0.2
EU	-0.8	-1.0	-0.8	-0.7	-0.5	n.a.	-1.1	-0.8	-1.1	-1.2	0.0	0.1	0.4

Note: For SCPs: recalculated by the European Commission on the basis of the information in the programme according to the commonly-agreed methodology. EU averages are based on UK Fiscal year data.

Source: European Commission based on Commission 2019 spring forecast and 2019 SCPs

Table A1.7: Change in structural balance (pps. of pot. GDP)

	2019 Stability and Convergence Programmes						Commission 2019 spring forecast				Difference compared to forecast (red means higher in programme)		
	2018	2019	2020	2021	2022	2023	2017	2018	2019	2020	2018	2019	2020
BE	0.4	0.1	0.6	0.3	0.0	n.a.	0.8	0.0	0.0	-0.3	0.3	0.2	0.9
CY	1.6	-0.8	-0.5	-0.1	-0.3	n.a.	0.2	0.7	-0.9	-0.4	0.9	0.1	0.0
DE	0.5	-0.7	-0.2	-0.2	-0.1	0.2	0.1	0.7	-0.5	-0.2	-0.2	-0.3	0.0
EE	0.0	0.4	-0.1	-0.2	-0.3	0.5	-0.9	-0.5	0.5	0.1	0.5	-0.1	-0.2
EL	1.0	-1.7	-1.0	-0.5	-0.2	n.a.	-0.5	-0.1	-3.1	-1.2	1.1	1.4	0.1
IE	0.2	0.5	0.5	0.9	0.7	n.a.	1.1	-0.4	0.2	0.7	0.6	0.4	-0.1
ES	0.8	-0.1	0.7	0.5	0.3	n.a.	0.4	0.0	-0.2	-0.3	0.8	0.1	1.0
FR	0.4	0.2	0.1	0.2	0.3	n.a.	0.1	0.2	0.0	0.0	0.3	0.2	0.1
IT	0.2	-0.2	0.2	0.2	0.2	n.a.	-0.4	-0.1	-0.2	-1.2	0.2	0.0	1.4
LV	-0.4	0.7	0.6	0.5	0.0	n.a.	-1.0	-0.8	0.4	0.6	0.4	0.3	0.1
LT	0.3	0.0	0.4	0.2	0.2	n.a.	-0.4	0.0	-0.2	0.1	0.3	0.2	0.3
LU	1.1	-1.7	0.0	0.0	0.5	0.3	-0.2	0.6	-1.2	-0.4	0.5	-0.5	0.4
MT	-1.8	-0.9	0.4	0.2	0.0	n.a.	2.9	-1.8	-0.8	0.1	0.0	-0.2	0.2
NL	0.6	-0.4	0.1	-0.5	-0.1	n.a.	0.3	0.2	-0.1	-0.5	0.5	-0.3	0.6
AT	0.9	0.3	0.0	0.2	-0.1	0.1	0.3	0.3	0.4	0.1	0.5	0.0	-0.1
PT	1.2	0.1	0.3	0.1	0.0	-0.1	0.7	0.9	-0.1	0.0	0.3	0.2	0.3
SI	0.7	0.2	0.2	0.6	0.6	n.a.	0.5	-0.2	-0.1	0.5	0.9	0.2	-0.3
SK	0.1	0.5	0.0	0.1	0.3	n.a.	1.1	-0.3	0.0	-0.2	0.4	0.5	0.1
FI	0.3	0.1	0.5	-0.1	-0.2	n.a.	0.1	-0.3	0.0	0.4	0.6	0.1	0.1
EA	0.5	-0.2	0.1	0.1	0.1	n.a.	0.1	0.3	-0.2	-0.3	0.2	0.0	0.4
BG	0.8	-2.3	0.7	-0.2	-0.2	n.a.	0.8	0.8	-1.3	0.0	0.0	-1.0	0.7
CZ	-0.6	-0.5	-0.3	-0.1	-0.1	n.a.	0.2	-0.6	-0.5	-0.2	0.0	0.1	-0.1
DK	-0.9	0.0	0.1	-0.1	-0.1	n.a.	1.2	-0.7	0.1	0.1	-0.2	0.0	0.0
HR	0.0	-1.1	0.3	0.1	0.3	n.a.	1.2	-1.0	-0.5	0.3	1.0	-0.6	0.1
HU	0.4	0.6	0.5	0.5	0.8	0.7	-1.6	-0.3	0.4	0.6	0.7	0.2	-0.1
RO	0.0	-0.2	-0.2	0.3	0.3	n.a.	-1.2	0.0	-0.7	-1.2	0.0	0.5	1.0
PL	1.1	-1.3	1.0	0.7	0.0	n.a.	0.0	0.5	-1.4	-0.2	0.6	0.1	1.2
SE	-0.7	0.1	0.3	0.5	0.6	n.a.	0.5	-0.6	-0.2	0.1	-0.1	0.3	0.2
UK	0.7	0.1	0.5	0.0	0.4	0.2	0.1	0.9	0.0	0.4	-0.3	0.1	0.0
EU	0.5	-0.2	0.2	0.1	0.2	n.a.	0.1	0.3	-0.2	-0.2	0.2	0.0	0.4

Note: For SCPs: recalculated by the European Commission on the basis of the information in the programme according to the commonly-agreed methodology. EU averages are based on UK Fiscal year data.

Source: European Commission based on Commission 2019 spring forecast and 201 SCPs

Table A1.8: Structural primary balance (% of pot. GDP)

	2019 Stability and Convergence Programmes						Commission 2019 spring forecast				Difference compared to forecast (red means higher in programme)		
	2018	2019	2020	2021	2022	2023	2017	2018	2019	2020	2018	2019	2020
BE	1.3	1.2	1.6	1.7	1.7	n.a.	1.0	0.9	0.7	0.3	0.4	0.5	1.3
CY	4.8	3.8	3.2	2.9	2.5	n.a.	3.9	4.5	3.5	2.7	0.3	0.3	0.4
DE	2.5	1.7	1.4	1.2	1.2	1.4	1.8	2.5	2.0	1.7	0.0	-0.3	-0.3
EE	-1.9	-1.5	-1.6	-1.7	-1.9	-1.4	-1.6	-2.1	-1.7	-1.5	0.2	0.1	-0.1
EL	8.1	6.2	4.9	4.4	4.2	n.a.	8.2	8.3	5.5	4.5	-0.3	0.7	0.5
IE	0.0	0.4	0.7	1.5	2.2	2.9	1.1	0.3	0.3	0.7	-0.3	0.1	0.0
ES	-0.2	-0.4	0.2	0.6	0.9	n.a.	-0.1	-0.2	-0.7	-1.1	0.1	0.3	1.4
FR	-0.8	-0.8	-0.7	-0.4	0.0	n.a.	-1.0	-0.9	-0.9	-0.9	0.0	0.1	0.2
IT	1.6	1.3	1.5	1.9	2.3	n.a.	1.7	1.5	1.2	0.2	0.1	0.1	1.4
LV	-1.4	-0.7	0.0	0.5	0.6	n.a.	-0.3	-1.4	-1.0	-0.4	0.0	0.3	0.5
LT	0.1	0.1	0.3	0.4	0.4	n.a.	0.4	0.1	-0.1	-0.2	0.0	0.3	0.6
LU	2.6	0.8	0.9	0.8	1.3	1.6	1.9	2.5	1.2	0.8	0.1	-0.3	0.1
MT	3.0	1.9	2.2	2.3	2.2	n.a.	5.0	2.9	2.0	2.0	0.1	-0.1	0.2
NL	1.7	1.1	1.1	0.5	0.4	n.a.	1.6	1.7	1.5	0.9	0.0	-0.4	0.2
AT	1.3	1.4	1.3	1.3	1.1	1.2	1.0	1.2	1.4	1.4	0.0	0.0	-0.1
PT	3.2	3.2	3.3	3.2	3.0	2.9	2.5	3.0	2.8	2.5	0.2	0.4	0.8
SI	1.3	1.1	1.1	1.5	2.0	n.a.	2.0	1.2	0.8	1.2	0.0	0.2	-0.1
SK	0.2	0.5	0.3	0.4	0.7	n.a.	0.4	0.0	0.0	-0.2	0.1	0.5	0.6
FI	0.0	0.1	0.6	0.5	0.3	n.a.	0.3	-0.1	-0.1	0.2	0.2	0.3	0.3
EA	1.2	0.8	0.9	1.0	1.1	n.a.	1.0	1.2	0.8	0.5	0.0	0.0	0.4
BG	2.6	0.2	0.9	0.5	0.4	n.a.	1.9	2.6	1.2	1.2	0.0	-1.0	-0.3
CZ	1.2	0.8	0.5	0.3	0.2	n.a.	1.8	1.2	0.6	0.4	0.1	0.1	0.0
DK	1.9	1.9	1.9	1.8	1.7	n.a.	2.6	1.9	2.0	2.1	0.0	-0.1	-0.1
HR	2.5	1.5	1.5	1.5	1.6	n.a.	3.3	2.0	1.3	1.3	0.6	0.1	0.2
HU	-1.0	-0.5	-0.1	0.3	1.1	1.7	-0.6	-1.2	-0.9	-0.4	0.2	0.4	0.3
RO	-1.4	-1.5	-1.6	-1.4	-1.2	n.a.	-1.7	-1.8	-2.4	-3.5	0.4	0.9	1.9
PL	-0.1	-1.4	-0.4	0.2	0.1	n.a.	-0.4	0.0	-1.4	-1.7	-0.1	0.0	1.3
SE	1.0	1.0	1.3	1.7	2.4	n.a.	1.7	1.1	1.0	1.1	-0.2	0.0	0.2
UK	0.6	0.8	1.1	1.0	1.4	1.4	-0.3	0.0	0.6	0.6	0.6	0.2	0.5
EU	1.0	0.7	0.9	0.9	1.1	n.a.	0.8	0.9	0.7	0.4	0.1	0.0	0.4

Note: For SCPs: recalculated by the European Commission on the basis of the information in the programme according to the commonly-agreed methodology. EU averages are based on UK Fiscal year data.

Source: European Commission based on Commission 2019 spring forecast and 2019 SCPs

Table A1.9: Change in structural primary balance (pps. of pot. GDP)

	2019 Stability and Convergence Programmes						Commission 2019 spring forecast				Difference compared to forecast (red means higher in programme)		
	2018	2019	2020	2021	2022	2023	2017	2018	2019	2020	2018	2019	2020
BE	0.2	-0.1	0.4	0.2	0.0	n.a.	0.5	-0.2	-0.2	-0.4	0.4	0.1	0.8
CY	1.5	-1.0	-0.6	-0.3	-0.4	n.a.	0.0	0.6	-1.0	-0.8	0.9	0.0	0.2
DE	0.4	-0.8	-0.3	-0.2	-0.1	0.2	0.0	0.6	-0.5	-0.3	-0.2	-0.3	0.0
EE	-0.1	0.4	-0.1	-0.1	-0.3	0.5	-0.9	-0.5	0.5	0.1	0.4	-0.1	-0.2
EL	1.2	-1.9	-1.2	-0.5	-0.2	n.a.	-0.5	0.1	-2.9	-1.0	1.0	1.0	-0.2
IE	-0.2	0.3	0.3	0.8	0.7	n.a.	0.9	-0.8	0.0	0.4	0.6	0.4	-0.1
ES	0.7	-0.2	0.6	0.4	0.3	n.a.	0.1	-0.1	-0.4	-0.5	0.8	0.2	1.1
FR	0.4	0.0	0.1	0.3	0.4	n.a.	0.0	0.1	-0.1	0.0	0.3	0.0	0.1
IT	0.1	-0.3	0.2	0.3	0.4	n.a.	-0.5	-0.2	-0.3	-1.1	0.2	0.0	1.3
LV	-0.6	0.7	0.7	0.5	0.0	n.a.	-1.1	-1.1	0.4	0.5	0.4	0.3	0.2
LT	0.0	0.0	0.2	0.0	0.0	n.a.	-0.6	-0.2	-0.2	-0.1	0.3	0.2	0.3
LU	1.1	-1.8	0.0	-0.1	0.5	0.3	-0.2	0.6	-1.3	-0.4	0.5	-0.5	0.4
MT	-2.0	-1.1	0.2	0.1	0.0	n.a.	2.6	-2.1	-0.9	0.0	0.0	-0.2	0.2
NL	0.5	-0.6	0.0	-0.5	-0.1	n.a.	0.1	0.1	-0.2	-0.6	0.5	-0.4	0.6
AT	0.7	0.1	-0.1	0.1	-0.2	0.0	0.0	0.2	0.2	0.0	0.5	0.0	-0.1
PT	0.8	0.0	0.1	-0.1	-0.2	-0.1	0.4	0.5	-0.3	-0.2	0.3	0.2	0.3
SI	0.2	-0.2	0.1	0.4	0.5	n.a.	0.0	-0.7	-0.4	0.4	0.9	0.2	-0.3
SK	0.0	0.3	-0.1	0.1	0.3	n.a.	0.9	-0.4	-0.1	-0.2	0.4	0.4	0.1
FI	0.2	0.1	0.4	-0.1	-0.2	n.a.	0.0	-0.4	0.0	0.4	0.6	0.1	0.1
EA	0.4	-0.4	0.1	0.1	0.1	n.a.	0.0	0.1	-0.3	-0.3	0.2	0.0	0.4
BG	0.7	-2.4	0.7	-0.3	-0.2	n.a.	0.7	0.7	-1.4	-0.1	0.1	-1.1	0.8
CZ	-0.6	-0.5	-0.3	-0.1	-0.1	n.a.	0.0	-0.6	-0.5	-0.2	0.0	0.1	-0.1
DK	-0.9	-0.1	0.1	-0.1	-0.1	n.a.	0.9	-0.7	0.1	0.1	-0.2	-0.1	0.0
HR	-0.3	-1.1	0.0	0.0	0.1	n.a.	0.8	-1.3	-0.6	-0.1	1.0	-0.4	0.1
HU	0.1	0.6	0.4	0.3	0.8	0.6	-2.0	-0.6	0.3	0.5	0.7	0.3	-0.1
RO	-0.1	-0.2	-0.1	0.2	0.2	n.a.	-1.4	-0.1	-0.6	-1.1	0.0	0.4	1.0
PL	1.0	-1.3	1.0	0.6	-0.1	n.a.	-0.2	0.4	-1.4	-0.3	0.6	0.2	1.3
SE	-0.7	0.0	0.3	0.4	0.6	n.a.	0.5	-0.6	-0.2	0.2	-0.1	0.2	0.2
UK	0.3	0.2	0.3	-0.1	0.4	0.1	0.5	0.3	0.6	0.0	0.0	-0.4	0.3
EU	0.3	-0.3	0.1	0.1	0.2	n.a.	0.1	0.1	-0.2	-0.3	0.2	-0.1	0.4

Note: For SCPs: recalculated by the European Commission based on the information in the programme according to the commonly-agreed methodology. EU averages are based on UK Fiscal year data.

Source: European Commission based on Commission 2019 spring forecast and 2019 SCPs

Table A1.10: Fiscal effort based on the expenditure benchmark (% of GDP)

	2019 Stability and Convergence Programmes						Commission 2019 spring forecast				Difference compared to forecast (red means higher in programme)		
	2018	2019	2020	2021	2022	2023	2017	2018	2019	2020	2018	2019	2020
BE	n.a.	0.4	0.5	0.2	-0.2	n.a.	0.4	-0.4	-0.5	-0.6	n.a.	0.9	1.1
CY	n.a.	-3.5	-0.2	-0.2	0.4	n.a.	-1.3	2.0	-4.0	-0.5	n.a.	0.5	0.2
DE	n.a.	-0.8	-0.2	-0.3	-0.1	n.a.	-0.3	-0.2	-0.7	-0.4	n.a.	0.0	0.2
EE	n.a.	0.5	0.1	0.4	0.1	n.a.	-0.1	-0.2	-0.1	-0.1	n.a.	0.6	0.2
EL	n.a.	-1.6	0.4	0.3	0.0	n.a.	1.2	-0.8	-0.7	-0.5	n.a.	-0.9	0.9
IE	n.a.	0.8	0.8	0.8	0.6	n.a.	0.2	0.5	0.5	1.2	n.a.	0.2	-0.4
ES	n.a.	-0.4	-0.1	-0.1	-0.2	n.a.	0.0	-1.0	-0.6	-0.6	n.a.	0.2	0.5
FR	n.a.	-0.1	-0.1	0.1	0.3	n.a.	-0.2	0.1	-0.2	-0.2	n.a.	0.1	0.1
IT	n.a.	-0.4	0.3	0.1	0.3	n.a.	-0.4	-0.5	-0.4	-1.0	n.a.	0.0	1.3
LV	n.a.	0.9	-0.8	0.7	0.3	n.a.	-0.6	-1.3	-0.2	-0.3	n.a.	1.1	-0.5
LT	n.a.	-0.7	0.1	-0.4	-0.8	n.a.	0.3	-0.8	-0.8	0.0	n.a.	0.1	0.1
LU	n.a.	-0.4	-0.4	-0.3	-0.1	n.a.	-2.3	-0.7	-1.2	-0.7	n.a.	0.8	0.3
MT	n.a.	-1.0	0.3	0.6	0.5	n.a.	0.8	-2.1	-0.7	0.2	n.a.	-0.2	0.1
NL	n.a.	-0.7	-0.1	-0.2	0.2	n.a.	0.3	-0.6	-0.5	-0.6	n.a.	-0.2	0.5
AT	n.a.	0.0	0.0	0.0	-0.1	n.a.	0.0	-0.4	0.0	0.0	n.a.	0.0	0.0
PT	n.a.	-0.6	-0.2	-0.2	-0.2	n.a.	0.1	-0.8	-1.0	-0.4	n.a.	0.4	0.2
SI	n.a.	-0.3	0.5	0.0	0.2	n.a.	0.4	-0.2	-0.9	0.3	n.a.	0.6	0.3
SK	n.a.	0.6	0.4	0.3	0.8	n.a.	0.8	-0.5	0.0	0.0	n.a.	0.5	0.4
FI	n.a.	-0.6	0.3	-0.1	0.1	n.a.	0.0	-0.2	-0.5	0.2	n.a.	-0.1	0.0
EA	n.a.	-0.3	0.0	0.0	0.1	n.a.	-0.1	-0.3	-0.5	-0.4	n.a.	0.2	0.4
BG	n.a.	-1.2	0.3	0.1	0.1	n.a.	-0.3	1.3	-0.5	0.2	n.a.	-0.7	0.2
CZ	n.a.	-0.6	-0.3	-0.1	0.1	n.a.	-0.1	-1.3	-0.9	-0.3	n.a.	0.4	0.1
DK	n.a.	1.2	0.3	0.0	-0.2	n.a.	0.3	-0.3	0.3	0.3	n.a.	0.9	0.1
HR	n.a.	-1.7	-0.7	-0.3	0.1	n.a.	0.2	-1.2	-1.5	-0.3	n.a.	-0.2	-0.4
HU	n.a.	0.1	-0.5	-0.1	0.0	n.a.	-2.3	0.3	0.2	-0.4	n.a.	-0.1	0.0
RO	n.a.	-0.7	-0.1	-0.3	-0.7	n.a.	-2.5	-0.6	-0.7	-1.2	n.a.	0.0	1.1
PL	n.a.	-1.8	-0.4	1.0	0.7	n.a.	0.3	0.3	-1.3	-0.8	n.a.	-0.5	0.4
SE	n.a.	0.1	0.5	0.4	0.6	n.a.	0.6	-0.5	0.3	0.4	n.a.	-0.2	0.0
UK	n.a.	0.2	0.2	0.0	-0.2	n.a.	0.1	0.2	0.1	0.1	n.a.	0.1	0.1
EU	n.a.	-0.3	0.0	0.0	0.1	n.a.	0.4	-0.2	-0.6	-0.4	n.a.	0.3	0.4

Note: Calculated based on the 10-year average potential growth rate as estimated by the Commission 2019 spring forecast. EU averages are based on UK Fiscal year data.

Source: European Commission based on Commission 2019 spring forecast and 2019 SCPs

Table A1.11: General government total debt (% of GDP)

	2019 Stability and Convergence Programmes						Commission 2019 spring forecast				Difference compared to forecast (red means higher in programme)		
	2018	2019	2020	2021	2022	2023	2017	2018	2019	2020	2018	2019	2020
BE	102.0	100.6	98.5	96.2	94.0	n.a.	103.4	102.0	101.3	100.7	0.0	-0.7	-2.2
CY	102.5	95.7	89.1	83.0	77.5	n.a.	95.8	102.5	96.4	89.9	0.0	-0.8	-0.8
DE	61	58 3/4	56 2/4	54 3/4	53	51 1/3	64.5	60.9	58.4	55.6	0.0	0.2	1.0
EE	7.9	8.2	8.1	8.0	8.3	8.2	9.2	8.4	8.5	8.5	-0.5	-0.3	-0.4
EL	181.1	170.6	163.9	157.5	153.3	n.a.	176.2	181.1	174.9	168.9	0.0	-4.3	-5.0
IE	64.8	61.1	55.8	55.4	53.2	n.a.	68.5	64.8	61.3	55.9	0.0	-0.2	-0.1
ES	97.1	95.8	94.0	91.4	88.7	n.a.	98.1	97.1	96.3	95.7	0.0	-0.4	-1.7
FR	98.4	98.9	98.7	98.1	96.8	n.a.	98.4	98.4	99.0	98.9	0.0	-0.1	-0.2
IT	132.2	132.6	131.3	130.2	128.9	n.a.	131.4	132.2	133.7	135.2	0.0	-1.1	-3.9
LV	35.9	37.4	36.1	33.5	33.1	n.a.	40.0	35.9	34.5	33.5	0.0	2.9	2.6
LT	34.2	37.0	36.2	35.4	32.9	n.a.	39.4	34.2	37.0	36.4	0.0	0.0	-0.2
LU	21.4	20.2	19.9	19.3	18.4	17.3	23.0	21.4	20.7	20.3	0.0	-0.5	-0.4
MT	46.0	42.7	39.4	36.2	33.2	n.a.	50.2	46.0	42.8	40.2	0.0	-0.1	-0.8
NL	52.4	49.1	47.1	45.7	44.6	n.a.	57.0	52.4	49.1	46.7	0.0	0.0	0.4
AT	73.8	69.6	66.5	64.0	61.8	59.8	78.2	73.8	69.7	66.8	0.0	-0.1	-0.2
PT	121.5	118.6	115.2	109.0	103.7	99.6	124.8	121.5	119.5	116.6	0.0	-0.9	-1.4
SI	70.1	65.4	61.3	57.9	54.7	n.a.	74.1	70.1	65.9	61.7	0.0	-0.5	-0.4
SK	48.9	47.5	45.9	44.9	44.4	n.a.	50.9	48.9	47.3	46.0	0.0	0.2	-0.1
FI	58.9	58.1	57.4	57.4	57.7	n.a.	61.3	58.9	58.3	57.7	0.0	-0.2	-0.3
EA	87.1	85.5	83.7	82.0	80.2	n.a.	89.1	87.1	85.8	84.3	0.0	-0.3	-0.6
BG	22.6	20.6	19.1	17.8	16.7	n.a.	25.6	22.6	20.5	18.4	0.0	0.1	0.7
CZ	32.7	31.5	30.8	30.2	29.7	n.a.	34.7	32.7	31.7	31.1	0.0	-0.2	-0.3
DK	33.8	33.4	33.4	34.0	35.5	n.a.	35.5	34.1	33.0	32.5	-0.3	0.4	0.8
HR	74.6	71.6	68.5	65.4	62.0	n.a.	77.8	74.6	70.9	67.6	0.0	0.7	0.9
HU	70.8	69.2	66.7	62.8	59.3	55.9	73.4	70.8	69.2	67.7	0.0	0.0	-1.0
RO	35.0	35.4	35.4	35.2	34.8	n.a.	35.2	35.0	36.0	38.4	0.0	-0.6	-3.0
PL	48.9	47.9	46.0	42.9	40.6	n.a.	50.6	48.9	48.2	47.4	0.0	-0.3	-1.4
SE	38.8	34.5	32.8	30.9	28.2	n.a.	40.8	38.8	34.4	32.4	0.0	0.1	0.4
UK	85.5	83.8	82.9	82.2	81.1	80.0	85.4	85.4	83.8	82.7	0.1	0.0	0.2
EU	81.5	79.8	78.0	76.4	74.7	n.a.	83.2	81.5	80.0	78.6	0.0	-0.3	-0.6

Note: 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: European Commission based on Commission 2019 spring forecast and 2019 SCPs

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