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The 2015 Stability and Convergence Programmes

An overview

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European Commission
Directorate-General for Economic and Financial Affairs

The 2015 Stability and Convergence Programmes

An overview

EUROPEAN ECONOMY Institutional Paper 002

EXECUTIVE SUMMARY

The background, mandate and broad principles:

Every April, EU Member States are required to lay out their fiscal plans for the next three years. This exercise is based on economic governance rules in the Stability and Growth Pact, which aim to prevent the emergence or exacerbation of fiscal difficulties.

Stability Programmes and Convergence Programmes contain:

- *A Medium-Term Objective (MTO), is a budgetary target set for each Member State which is defined in structural terms and is to be reached within the programme horizon. Member States must also set out yearly targets on the way towards the MTO and forecast the expected path of their debt-to-GDP ratios.*
- *Underlying economic assumptions about growth, employment, inflation and other important economic variables.*
- *A description and assessment of policy measures to achieve the [programme objectives more precisely: the MTO].*
- *An analysis of how changes in the main economic assumptions would affect the budgetary and debt position.*
- *Information covering several years including: one year of budgetary execution, the current budgetary year, and plans for the three following years.*
- *If applicable, an explanation for why targets are not being met.*

This report provides an overview of the 2015 Stability and Convergence Programmes (SCPs). It offers the opportunity for Member States to take an overall view of the fiscal plans over 2015-2018, both at the EU or euro area level and at the Member States level.

Main results – successes:

Fiscal consolidation continued in 2014 for the fourth year in a row, although at a considerably slower pace than in the previous years. The structural balance improved by 0.2% of GDP on average in the EU and 0.3% of GDP in the euro area in 2014, broadly in line with the 2014 SCPs. GDP growth in the euro area and the EU in 2014 turned out slightly worse than what was expected last year, though it was positive after two consecutive years of negative or no growth.

The euro area headline deficit in 2014 came in as planned last year at 2.4% of GDP, mostly due to the downward revision of the 2013 deficit figure and lower-than-expected interest payments. In the case of the EU, the headline deficit turned out 0.3% of GDP worse than planned, at 2.8% of GDP, falling nevertheless below 3% of GDP for the first time since 2008. The slight effort in 2014 was mainly achieved through revenue-raising measures as opposed to plans which foresaw an expenditure-based consolidation.

In their 2015 programmes Member States project growth to strengthen in 2015 and 2016. In fact, based on plans, all Member States expect to register positive real growth in 2015, and the aggregate output gap in both the euro area and the EU is projected to shrink in 2015 and 2016. These projections are in line with the Commission 2015 spring forecast pointing to stability and consensus in the underlying macroeconomic forecast. Moreover, the overall shift in the composition of growth towards a more prominent role of private consumption and investment than in recent years should increase the tax-richness of output.

According to the 2015 SCPs, general government deficit both at the euro area level and the EU is expected to remain below 3% of GDP in 2015 and all Member States plan to register a headline deficit below the 3% threshold by the end of the programme period. Moreover, 2014 is expected to have been the peak year for the debt-to-GDP ratio, which is set decrease in 2015 for the first time after seven years if consecutive increases and to continue to do so until the end of the programme period. The achievement of primary surpluses is expected to be the main driver of the overall debt reduction, while the reverse 'snow-ball' effect is now also expected to contribute to debt reduction at an aggregate level.

***Main results – future challenges and considerations**:*

Against a background of a nascent recovery and of large past efforts paying off, future plans point to a significant slowdown in the pace of consolidation. The cumulative improvement in the structural balance over the programme horizon amounts to 0.4% of GDP in the euro area and 1.1% of GDP in the EU. In 2015, structural consolidation is set to virtually halt in 2015 both in the euro area and the EU, after four consecutive years of fiscal adjustment. Consolidation is planned to moderately resume in the EU in 2016 at 0.3% of GDP, but not yet in the euro area.The somewhat lower effort planned by some Member States in 2016 is partly related to the application of the so-called structural reform or pension reform clause as specified in the Communication from the Commission on marking the best use of the flexibility within the existing rules of the Stability and Growth Pact. The average annual consolidation pace for the period 2017-2018 is also expected to remain at around one quarter of GDP per year in both the euro area and the EU.

As regards the composition of the fiscal adjustment, in aggregate, the 2015 SCPs plan to reduce revenues by about 0.4 percentage points of GDP over the programme period and to reduce expenditure by around five times as much in the euro area and the wider EU. However, a substantial part of the expenditure effort projected for both the euro area and the EU is expected to stem from reduced interest payments. The composition of the planned consolidation on the expenditure side in the EU and the euro area appears also to be less biased against public investment than in the past. Nevertheless, capital expenditure is expected to still decline slightly¬ both in the EU and the euro area between 2014 and 2018 which implies that the quality of the adjustment remains subpar.

The broad picture of structural adjustment at the aggregate level masks considerable differences across Member States. In particular, Member States have in general planned a differentiated fiscal consolidation strategy in accordance with their respective starting debt levels and distance with respect to their MTOs. At the same time, the fiscal plans of several individual Member States fall significantly short of requirements under the Stability and Growth Pact and this is the case for various Member States under EDP or in the preventive arm but not yet at their MTO. Conversely, Member States at or above their MTO plan to remain close to it.

Conclusions:

Overall, the consolidation plans presented in the 2015 SCPs are less ambitious and somewhat more back-loaded than the ones contained in last year's SCPs, especially in the euro area. Furthermore, the planned structural improvement over the programme horizon largely reflects favourable developments in interest expenditure in the euro area; this is also an important driving factor of consolidation in the EU. The low structural improvement in 2015 can be considered as broadly appropriate given the fragile recovery. At the same time, a repartition of effort across Member States more in line with their SGP requirements or available fiscal space would be desirable. For 2016 and beyond, plans should also take into account the currently high debt levels, the projected cyclical improvement and the fact that the large majority of Member States are still far from their MTO.

The comparison of the 2015 SCPs with the Commission 2015 spring forecast shows that the plans are plausible for 2015 and 2016. Furthermore, the assumptions on revenue semi-elasticities and interest payments which underlie the SCPs projections for the later years of the programme seem overall prudent. At the individual Member States' level, however, the achievement of these objectives is not always ensured by the amount of additional discretionary measures reported in the SCPs, which points to risks of under-delivery of the planned fiscal effort. Additionally, the fact that fiscal plans are generally back-loaded constitutes an additional source of risk.

Risks for short-term fiscal stress have been reduced in nearly all Member States. However, medium-term sustainability risks remain: debt projections show that even if the fiscal plans in the SCPs were fully implemented, additional fiscal consolidation measures in the order of 1/2 to 1 percentage points of GDP on average would be needed over the period 2016-2021 to bring the debt-to-GDP ratio down to 60% by 2030.

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I. INTRODUCTION

This note provides an overview of the 2015 vintage of Stability and Convergence Programmes (SCPs) submitted by the Member States ([1]). The note aims at offering a cross-country aggregated view of fiscal policy plans in the Union and the euro area as a whole ([2]).

In its conclusions of 19-20 March 2015, the Council indicated that fiscal consolidation has to be pursued and should be differentiated, growth-friendly, in line with the priorities set out in the Annual Growth Survey and based on an appropriate mix of expenditure and revenue measures at the level of the Member States. Together with the SGP requirements – as specified in the 2015 country specific recommendations, especially for 2016 – these principles represent the basis for the assessments of the SCPs. In the context of the European Semester, the Council recommendations are expected to feed into the national budgets for 2016. For these reasons, plans for 2016 are given primary attention in the present note.

The note consists of five sections. Section II examines the implementation of SCPs in 2014. Section III presents the macroeconomic scenarios and budgetary plans set out by Member States in their SCPs, in particular the fiscal consolidation strategies (pace, time profile and composition of the fiscal adjustment) in nominal and structural terms over 2015 to 2018. Section IV contains an analysis of the risks present in the SCPs plans, focusing on risks to projections of macroeconomic variables and related revenue targets and, in particular, examining the differences between the Commission's projections for the years 2015-16 and those contained in Member States' SCPs. Section V looks at the longer term implications of the plans for fiscal sustainability, notably taking into account the projected changes in age-related expenditure. Finally, Annex I provides tables with data from both the SCPs and the Commission 2015 spring forecast.

([1]) The analysis is built around data reported by Member States in their 2015 Stability and Convergence Programmes, unless otherwise specified. As Cyprus and Greece are under a macroeconomic adjustment programme they did not submit stability programmes and are not part of this analysis. Finland submitted a no-policy change Stability Programme, linked to national elections. Therefore the information contained in Finland's Stability Programme is not a clear guide to the governments' policy intentions. The data for the UK correspond to fiscal years and, when relevant, other (Commission) data for the UK are adjusted to be comparable.

([2]) The overview of the 2014 vintage of the SCPs is available at: http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp199_en.pdf

II. 2014 AT A GLANCE AND BUDGETARY DEVELOPMENTS

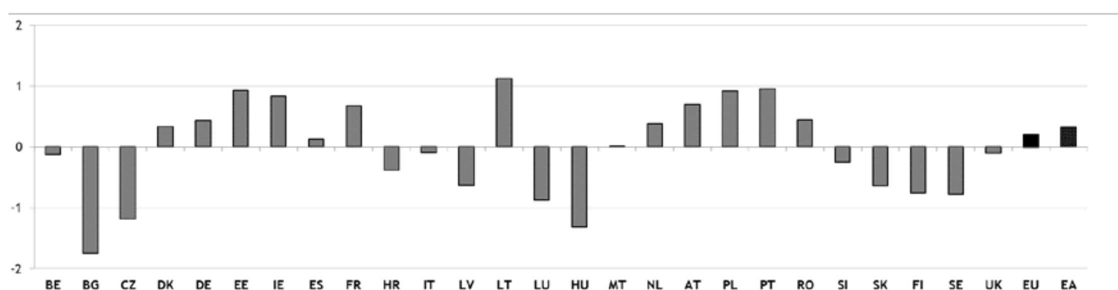
II.1. FISCAL PERFORMANCE IN 2014

After a sizeable reduction in government structural deficits in the past years, structural consolidation efforts continued in 2014, albeit at a slower pace. Compared to the 0.7% average consolidation effort that both the EU and the euro area implemented in 2013, the structural balance improved by 0.2% of GDP on average in the EU and 0.3% of GDP in the euro area in 2014. The implemented change in the structural balance was broadly in line with plans as presented in the 2014 SCPs as well as with the 2015 Commission spring forecast for both regions.

These average consolidation efforts reflect a considerable dispersion among countries, with half of the EU Member States improving their structural balance position and half of them deteriorating it. Turning to the euro area, ten Member States tightened their fiscal position while seven loosened it. This partly reflects the fact that more Member States were under the preventive arm of the Pact in 2014 compared to 2013, and the structural position of some of them was above their respective MTOs.

The largest structural improvement was recorded in Lithuania, the only Member State which implemented an effort slightly over 1% of GDP – when measured by the change in the structural balance – while Estonia, Ireland, France, Austria, Poland and Portugal achieved a structural effort between 0.7 and 1% of GDP. In turn, Denmark, Germany, the Netherlands and Romania registered a structural effort of around 0.4% of GDP in 2014. Contrary to that Spain, Malta and the UK among other Member States in EDP registered close to zero changes in their structural balance, while Croatia and Slovenia even deteriorations (over 1% of GDP) were recorded in Bulgaria, Hungary and the Czech Republic. Another five Member States (Latvia, Luxembourg, Slovakia, Finland and Sweden) registered a still significant
deteriorations (over 1% of GDP) were recorded in Bulgaria, Hungary and the Czech Republic. Another five Member States (Latvia, Luxembourg, Slovakia, Finland and Sweden) registered a still significant

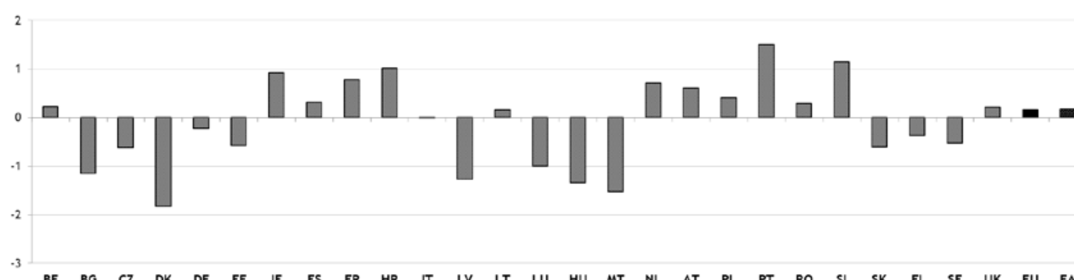
Graph II.1a: Change in structural balance (pp of GDP) in EU Member States in 2014



Source: Commission services
The graph plots the change in the structural balance in 2014 according to the Commission 2015 spring forecast. UK figures have been computed according to the financial year.

The change in the structural balance may however provide an inaccurate picture of the actual implemented fiscal effort in a context in which revenues respond abnormally to economic growth or interest expenditure changes substantially from one year to another. Another source of difficulties in interpreting the change in the structural balance as a proxy of the fiscal effort relates to its tendency to undergo revisions, in turn reflecting the difficulty of real time measurement of the output gap.

Graph II.1b: **The discretionary fiscal effort (pp of GDP) in EU Member States in 2014**



Source: Commission services
The graph plots the DFE in 2014 according to the Commission 2015 spring forecast. UK figures have been computed according to the financial year.

The discretionary fiscal effort (DFE) ([3]) provides an alternative indication of the fiscal effort implemented in 2014. While, when looking at the change in structural balance consolidation efforts in 2014 appear to be broadly in line with last year's plans, the DFE rather suggests that the fiscal effort implemented in both the EU and the euro area in 2014 was 0.4% of GDP short of plans. At the aggregate level, Member States planned a DFE of around 0.6% of GDP in 2014 according to 2014 SCPs. Conversely, outturn data show that the actual discretionary effort was about 0.2% of GDP in both regions. Across Member States sizeable differences between the two indicators are found in six Member States (Denmark, Malta, Estonia, Lithuania, Croatia and Slovenia).

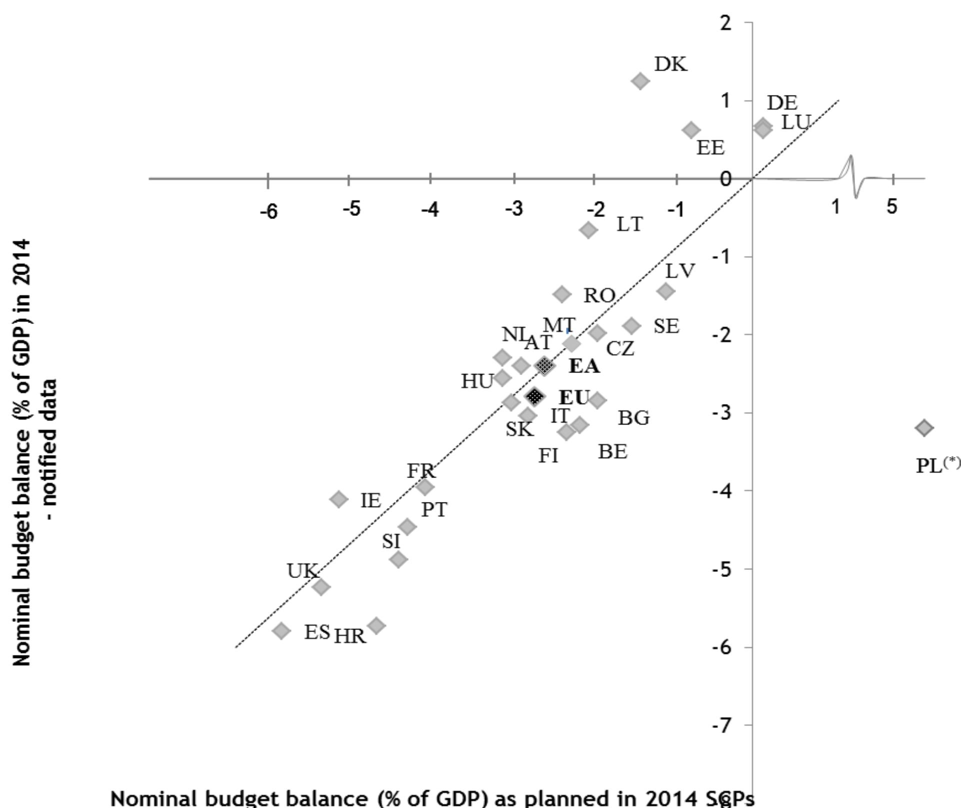
The euro area average **headline deficit** turned out as planned last year, at 2.4%. This was however achieved through a smaller-than-planned reduction in the general government balance with respect to its 2013 level due to a revision in the 2013 headline balance figure. Thus the 0.3% of GDP actual reduction in the headline deficit between 2013 and 2014 was 0.3% of GDP versus the 0.5% of GDP that was planned last year. Furthermore, the 0.3% of GDP reduction in the headline balance was mainly achieved through lower interest payments and the more favourable behaviour of elasticities, as detailed below. In the case of the EU, the headline deficit came in 0.3% of GDP worse than planned, at 2.8% of GDP, falling nevertheless below 3% for the first time since 2008.

Eleven out of the twenty-six Member States overachieved or just achieved their planned headline deficit targets in 2014, while the remaining fifteen missed them. This is in contrast to 2013, when the majority of Member States achieved their planned headline fiscal targets.

Across Member States, Poland missed its 2014 target by 9% of GDP, linked to the different treatment of pension assets transfers under ESA95 and ESA2010. The headline balance came in considerably worse than expected in Belgium, Bulgaria, Croatia and Finland, each missing their 2014 SCPs' targets by over 1% of GDP. At the other end of the spectrum, Luxembourg, Germany, the Netherlands, Ireland and Romania overachieved their headline targets by around 0.5% of GDP, while the nominal deficit of Lithuania and Estonia came in around 1% of GDP better than planned in 2014. Denmark stands out with a 2.5% of GDP better-than-planned headline deficit in 2014.

([3]) The DFE is a mixed fiscal effort indicator used for analytical purposes, which consists of a "bottom-up" approach on the revenue side and an essentially top-down approach on the expenditure side. Interest expenditure developments are excluded from the DFE computation which is therefore an indicator of 'primary' fiscal effort. See Chapter III of the Report on Public Finances in EMU 2013: http://ec.europa.eu/economy_finance/publications/european_economy/2013/pdf/ee-2013-4.pdf

Graph II.2: **Nominal balance (% of GDP) in EU Member States in 2014**



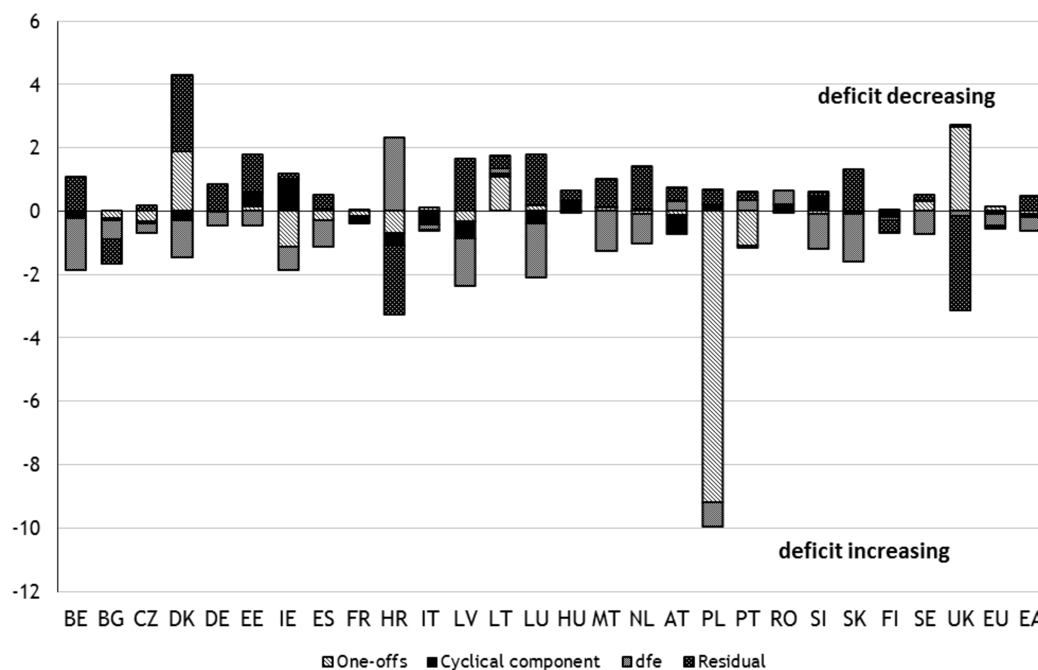
Source: Commission services
The graph plots the nominal budget balance in 2014 as planned in the 2014 SCPs (horizontal axis) against the notified 2014 budget balances (vertical axis). Member States above (below) the bi-sector line are those where the 2014 nominal balances came in better (worse) than planned.(*)The seemingly large difference in Poland's headline deficit is linked to the different treatment of pension assets transfers under ESA95 and ESA2010.

Graph II.3 looks at the **breakdown of the difference between planned and observed nominal balance changes**, specifically between one-offs, the policy effort as measured by the DFE, the cyclical component and a residual which captures differences in the projected and actual budget balance elasticities or interest payments, among other technical differences.

As stated above, the euro area headline deficit in 2014 came in as planned last year partly due to a downward revision in the 2013 deficit figure. Furthermore, lower-than-expected interest payments and the more favourable evolution of elasticities also contributed to the achievement of the headline deficit target in the euro area. In fact, these two factors – captured by the residual in Graph II.3 below – offset the impact of the lower-than-planned fiscal effort and slightly less benign cyclical conditions compared to plans.

In the case of the wider EU, the shortfall in the change of the headline deficit amounted to 0.4 pp and was mostly driven by a lower-than-planned fiscal effort and the slightly less favourable impact of cyclical conditions.

Graph II.3: **Observed changes in the EU Member States budget balance vs changes planned in 2014 SCPs: breakdown (pp of GDP)**



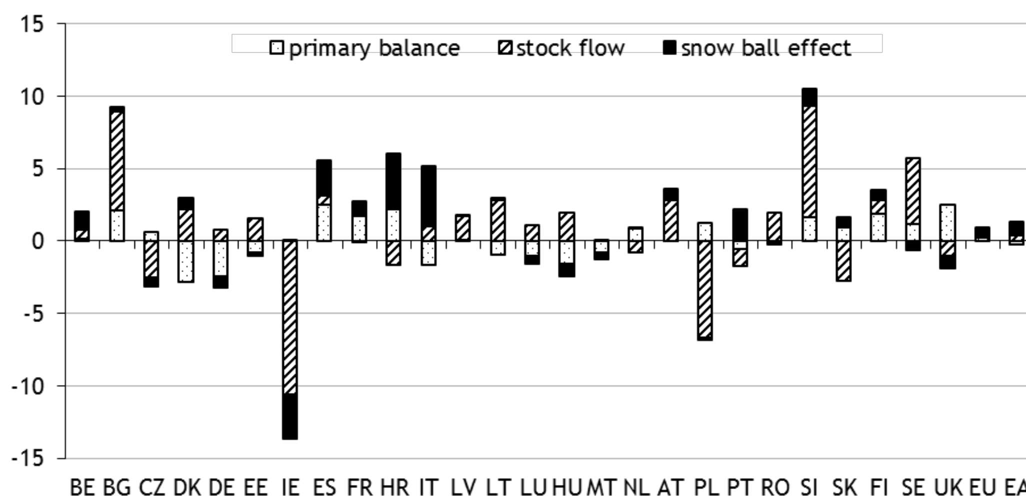
Source: Commission services
Negative (positive) values in any of the four components above are to be interpreted as it contributing less (more) to the improvement in the headline deficit than planned one year ago. The large impact of one-offs for Poland is due to the different treatment of pension assets transfers under ESA95 and ESA2010.

Of the seven Member States that registered lower nominal deficits than planned in their 2014 SCPs, better cyclical developments together with lower interest payments and more favourable elasticities – as proxied by the residual – played a larger role in meeting this target than had been expected in five of them (the Netherlands, Germany, Estonia, Hungary, Lithuania and Denmark). In the case of the first three, these windfalls more than offset the deficit-increasing impact of a lower-than-planned fiscal effort. One-off measures significantly contributed to reducing the deficit by more than had been expected in Denmark and Lithuania, which is not conducive to a durable improvement of their headline positions ([4]). Only in the case of Romania was the achievement of a lower-than-planned headline deficit the result of a larger fiscal effort.

A fiscal effort above the one planned in 2014 SCPs is also visible in Croatia, Austria and Portugal. However, the policy effort contributed less towards the change in the headline balance than planned in the majority of Member States, including most of the ones that missed their headline targets in 2014, such as Belgium, Bulgaria, the Czech Republic, Ireland, Spain, Latvia, Luxembourg or Slovenia. In the case of Spain and Slovenia this lower fiscal effort more than offset the unexpected additional contribution of the cycle and budgetary windfalls to the improvement of their headline deficits. Contrary to that, the impact of the cycle and the residual was deficit-widening in Bulgaria, Croatia, Finland, Portugal, Italy and to a lesser extent the Czech Republic and France. Finally, Graph II.3 shows that one-off measures increased the deficit by around 9 pp of GDP more than had been expected in Poland. This, however, is largely due

([4]) One-off and temporary measures are measures having a transitory budgetary effect that does not lead to a sustained change in the general government's intertemporal budgetary position. Therefore, deficit reductions achieved mainly through the implementation of such measures are likely to be non-durable.

Graph II.4: Contributions to the change in the debt-to-GDP ratio in 2014 (pp of GDP)



Source: Commission services
The graph disaggregates the changes to Member States debt-to-GDP ratios recorded in 2014 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.

to the different recording of the pension asset transfers under ESA2010 compared to the ESA95 convention.

Aggregate **debt developments** turned out slightly better than expected in the euro area and the EU reaching 93% and 87% of GDP, around 1.5% of GDP less than envisaged in the 2014 SCPs in both cases. Across Member States, Croatia stands out with the largest deviation with respect to last year's debt targets, (13 pp higher than expected), while Belgium and Austria registered debt ratios around 5 pp higher than planned in the 2014 SCPs. Conversely, Ireland and the Netherlands registered debt levels 12 pp and 6 pp below their respective targets. Italy, Spain, Germany, the Czech Republic, Hungary, Malta and the UK also registered debt levels somewhat below their respective targets. ([5])

While consolidation is a prerequisite for the debt ratio to decrease in the long run, debt dynamics also depend significantly on the interest rate-growth differential (i.e. the “snow-ball” effect) and on stock-flow adjustments. ([6]) Graph II.4 shows the contribution of fiscal consolidation (understood here as the change in the primary balance), the difference between GDP growth and interest rates, and the stock-flow adjustment on the change in government debt-to-GDP ratios in 2014.

Overall, the 0.9% and 1% of GDP increase in the debt of the EU and the euro area was mainly driven by the snow-ball effect, as was already the case last year. Across Member States, this effect accounts for a significant share of the debt increase in Belgium, Spain, France Croatia, Italy and Portugal. In the case of Italy, the snow-ball effect together with the stock-flow adjustment more than offset the debt-decreasing impact of the primary surplus achieved in 2014. Besides Italy, the primary surplus helped containing the

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([5]) It should be noted that part of the developments of the debt ratio compared to the 2014 SCPs may be due to the changeover to ESA2010, as for instance in the case of Belgium, Croatia, Austria and the Netherlands.

([6]) The change in the gross debt ratio can be decomposed as follows: $\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} = \frac{PD_t}{Y_t} + \left(\frac{D_{t-1}}{Y_{t-1}} * (r_t - g_t)\right) + \frac{SF_t}{Y_t}$ where t is a time subscript; *D, PD, Y* and *SF* are the stock of government debt, the primary deficit, nominal GDP and the stock-flow adjustment respectively, and r and *g* represent the average real interest rate and real rate of GDP growth. The term in parentheses represents the “snow-ball” effect, measuring the combined effect of interest expenditure and economic growth on the debt ratio.

increase in the debt-to-GDP ratio in Denmark, Estonia, Lithuania, Portugal and Romania, and contributed to reducing it in Germany, Luxembourg, Hungary and Malta.

II.2. MACROECONOMIC PERFORMANCE IN 2014

Table II.1 shows that the macroeconomic environment in 2014 was **slightly worse than anticipated in the 2014 SCPs**. Real GDP growth in 2014, at 1.7% and 1.3% in the EU and the euro area respectively, represented an improvement on the zero or negative growth recorded in both regions in the past two years. However, real GDP growth came in below forecast in both cases.

Table II.1: **Economic conditions in the EU and the euro area in 2014**

	variable	*2014 SCPs planned*	*COM 2015 spring forecast*
EU	Real GDP growth	1.7	1.4
EA		1.3	0.9
EU	Nominal GDP growth	3.1	2.5
EA		2.5	2.0
EU	Inflation (GDP deflator)	1.4	1.1
EA		1.2	1.0
EU	Output gap	-2.3	-2.4
EA		-2.6	-2.6

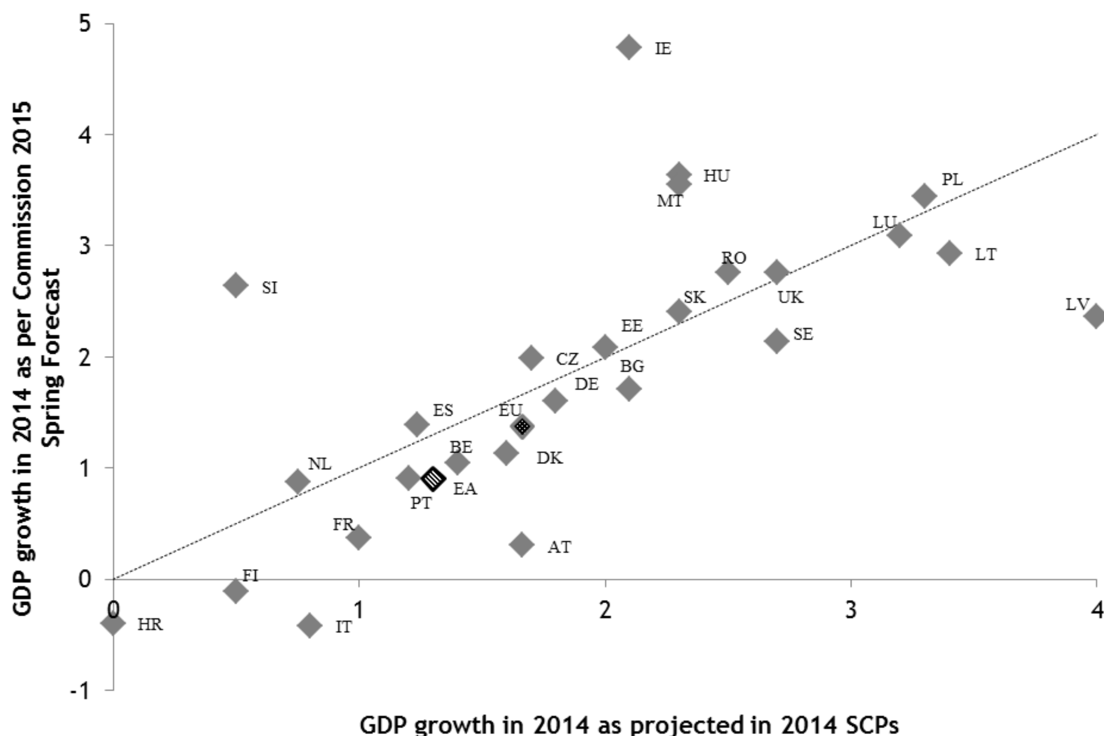
Source: Commission services
This table compares 2014 SCPs projections for real GDP growth, nominal GDP growth, inflation and output gap with the corresponding outturn values of those magnitudes in 2014.

In the same vein, nominal GDP growth, which is particularly relevant for the debt dynamics, was around a half of a per cent below projections in the euro area and the wider EU, reflecting the low levels of inflation during 2014. The GDP deflator recorded for the euro area in 2014 turned out at 1% and 1.1% for the EU, compared to 1.4 and 1.5% in 2013.

While the acceleration of real GDP growth supports Member States' efforts to deliver on their fiscal targets, it must be noted that the negative output gap remained substantial across both the euro zone and the EU as whole. Indeed, the output gap remained as negative in the euro area as had been anticipated in the 2014 SCPs and even remained slightly below expectations in the EU.

Graph II.5 shows that there is a certain degree of heterogeneity across Member States in terms of the performance of economic growth against forecast. In more than half of the Member States, economic activity was weaker than forecast in the 2014 SCPs, most particularly in Latvia, Austria, Italy, France, Finland and Sweden, but also to a significant extent in Lithuania, Denmark, Croatia, Bulgaria, Belgium and Portugal. On the other hand, growth came in noticeably above forecast in Ireland, Slovenia, Hungary and Malta.

Graph II.5: **Annual real GDP growth (%) in EU Member States in 2014**



Source: Commission services
The graph plots the 2014 GDP growth as projected in the 2014 update of the SCPs (horizontal axis) against 2014 outturn GDP growth (vertical axis). Member States above (below) the bi-sector line are those where the 2014 real GDP growth came in better (worse) than forecast. Greece and Cyprus are not included as they were not required to submit SCPs in 2014.

II.3. COMPOSITION OF BUDGETARY DEVELOPMENTS IN 2014

Table II.2 provides some illustration on the nature and composition of the consolidation that was achieved in 2014, compared to what had been planned.

Table II.2: **Composition of consolidation in EU and EA (GDP ratios 2014)**

		2013 outurn (ESA2010)	2014 SCPs planned change	2014 outturn change	Discretionary Fiscal Effort
Headline - change as % of GDP 2013 to 2014					
EU	Revenues	45.3	0.1	0.0	0.1
	Expenditures	48.4	-0.6	-0.3	0.0
EA	Revenues	46.5	0.0	0.1	0.2
	Expenditures	49.2	-0.4	-0.2	0.0

Source: Commission services
The table compares the changes in the revenue-and expenditure-to-GDP ratios in 2014, as planned in last year's SCPs and as outturn. It also includes the discretionary fiscal effort assessed as having been implemented in 2014, both on the revenue and the expenditure side.

Revenues' share of GDP remained constant in 2014, compared to a minor 0.1% of GDP increase that had been planned last year. At the same time the DFE points to a minimal discretionary effort on the revenue side in the EU as a whole. The expenditure-to-GDP ratio decreased by 0.3 pp, about half than planned in the 2014 SCPs. This decrease was, however, driven by the improvement in cyclical conditions and reduced interest payments – which declined by 0.2% of GDP in the EU in 2014 – as the EU average discretionary fiscal effort on the expenditure side is found to be zero.

In the euro area, revenues as a percentage of GDP increased by more than anticipated in 2014 – in line with a 0.2 pp effort on the revenue side – while expenditures' share in GDP was again reduced by half of what had been planned last year. The average zero expenditure effort shown by the DFE for the euro area suggests once more that the decrease in the expenditure ratio was driven by reduced interest payments – which also declined by 0.2% of GDP in the euro area.

III. MACROECONOMIC SCENARIOS AND BUDGETARY PLANS IN THE 2015 SCPS

III.1. GROWTH PROJECTIONS

The fiscal plans presented in the SCPs are based on macroeconomic scenarios which show a strengthening of growth in 2015 and 2016, for both the euro area and the EU overall. In the euro area, growth is expected to build upon the 0.9% recovery seen in 2014, rising to aggregate growth of 1.5% in 2015, followed by 1.8% in 2016 and to broadly continue at this rate in 2017 and 2018. The figures for the EU are somewhat stronger; following 1.4% growth in 2014, the EU is forecast to grow at 1.8% in 2015, 2.0% in 2016, and to remain around 2.0% in 2017 and 2018. The aggregate forecast in Member States' SCPs are in line with the Commission 2015 spring forecast, which projects 1.5% and 1.9% GDP growth in the euro area for 2015 and 2016 respectively, and 1.8% and 2.1% in the EU. This points to stability and consensus in the aggregate underlying macroeconomic forecasts. ([7])

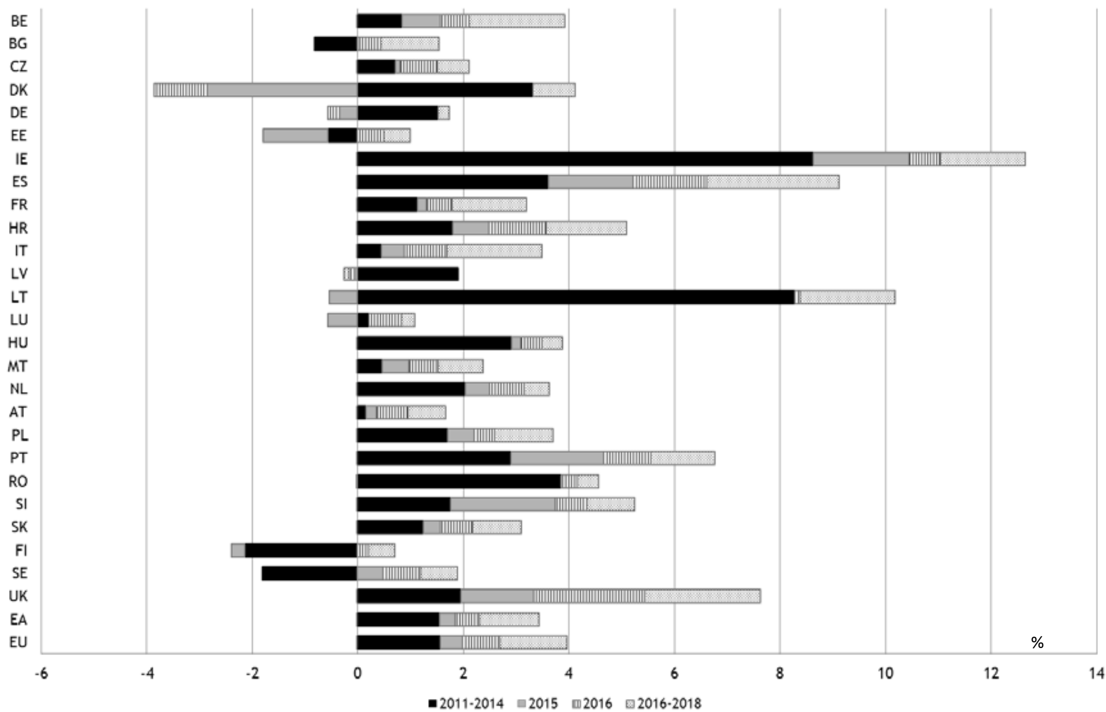
Further evidence of the economic recovery is that all countries' SCPs are forecasting positive growth for 2015, while over half are projecting GDP to grow by over 2%. Graph III.1 shows the SCPs forecast together with growth outturns since the onset of the crisis, for all Member States that have submitted an SCP in 2015. It shows that while the two years at the start of the crisis (2008 and 2009) saw economic activity shrink both overall and in all but five countries, a stabilisation was evident in 2010 and 2011, with all countries bar Spain and Croatia recording positive growth over the two year period. However, in 2012 and 2013 economic activity declined once again in the euro area and remained flat across the wider EU, while Spain, Croatia, Italy, Portugal and Slovenia all experienced a contraction of over 3% over the two year period. Clear signs of recovery are evident in 2014, with all countries except Croatia, Italy and Finland returning to positive growth. The recovery is expected to strengthen in 2015 with Ireland, Luxembourg, Hungary, Malta, Poland and Romania all projecting growth of over 3% and nearly all Member States forecasting an acceleration of growth in the 2016-2018 period. No Member State projects negative growth throughout the programme horizon in this year's update of the SCPs.

The underlying growth forecast for 2015 is sufficiently strong for the negative aggregate output gap in both the euro area and the EU to continue to shrink. The reduction in the (absolute value of) output gap, which started in 2014, is the reason why overall budget balances are now improving by more than the cyclically adjusted balances, as the economy is delivering better budgetary outcomes. Nevertheless, a negative output gap is set to remain in the large majority of cases with only Ireland, Latvia, Malta and the UK forecasting a positive output gap in 2015. By 2017, the number of countries expecting a positive output gap is only expected to have risen to eight, pointing to caution in Member States' SCPs regarding the continuing strength of the recovery in the medium-term.

The 2015 SCPs forecast the pace of nominal growth in the euro area to increase to 2.8% in 2015, 3.0% in 2016, before reaching 3.2% by 2017. For the EU as a whole, nominal growth will rise to 3.1% in 2015 and 3.3% in 2016, before reaching 3.5% in 2017. According to the SCPs, the GDP deflator is forecast to increase by 1.3% in 2015 in both regions, from about 1% in 2014. In 2016 the GDP deflator is expected to fall to 1.2% in the euro area and to remain at 1.3% in the EU. A slight pick-up in inflation is foreseen for 2017, however, with the deflator forecast at 1.5% in the euro area and 1.6% in the wider EU. For both the euro area and the EU, the growth in deflators is broadly in line with that set out in the 2014 SCPs.

([7]) The Commission's 2015 spring forecast projects real GDP growth of 1.9% in Germany in 2015, while the stability programme forecasts 1.5%. The more conservative growth and employment assumptions contained in the stability programme may reflect the fact that the programme is based on a forecast dating from January.

Graph III.1: **Time profile of fiscal developments: GDP growth in EU Member States over 2008-14 and plans, as presented in 2015 SCPs.**



Source: Commission services
The graph plots real GDP growth over the period 2008-2018, grouping by two year intervals, with the exception of 2014 and 2015. Outturn data are used for the years 2008-2014 while SCP projections are used from 2015 on.

After having risen by 1.4% in the EU and 1.0% in the euro area in 2014, the SCPs see private consumption expenditure continuing to strengthen in 2015, growing by 1.6% and 1.9% respectively and providing most of the impetus for growth. This pace of growth is forecast to be maintained in 2016, before falling back slightly in later years. In parallel, investment is also forecast to continue to reverse the trends seen in the crisis, building upon the 1.1% and 2.5% increase seen in 2014 in the euro area and the EU respectively. According to the SCPs investment is expected to further grow in 2015 by 2.0% in the euro area and 2.6% in the EU. An additional increase to 3.1% growth in the euro area and 3.8% in the EU is projected in 2016 as the recovery broadens. With improving conditions in the rest of the world, exports are projected to accelerate, but the increased domestic consumption is expected to be linked to a large increase in imports – a trend which was evident in 2014 and is expected to continue over the period of the programmes. Overall, the external position (as measured by net lending towards the rest of the world) is forecast to show a significant improvement from its 2014 level in both the euro area (3.1% of GDP) and the EU (1.5% of GDP), when exports acted as the primary driver of growth. ([8]) The external position of the euro area is forecast to improve to 3.7% of GDP in 2015 and remain at that level in 2016, while in the case of the EU it is expected to improve to 2.3% in 2015 and further to 2.6% in 2016.

Within these totals, Germany, Denmark, Hungary, the Netherlands, and Slovenia expect large external surpluses of over 5% of GDP in 2015, while Finland, France and the UK are the only countries forecasting external deficits. However, only Croatia, Slovakia and the UK expect their external position to improve by more than 2% of GDP between 2014 and 2017, while Bulgaria, the Czech Republic,

([8]) Aggregates for the external positon of the euro area and the EU do not include Estonia, Ireland, Luxembourg and Slovenia where data are not available.

Germany, Denmark, Lithuania, Malta, Poland and Romania are all projecting their external positions to worsen over the period. The overall trend in the composition of growth of a broadening from export-driven growth to growth that is also based on domestic consumption and investment, is in line with the plans set out in the 2014 SCPs and should increase the tax-richness of output, yielding stronger government revenues for a given level of output.

III.2. BUDGETARY PLANS: SIZE AND TIME PROFILE

Overall, after a long period of significant structural fiscal adjustment implemented over the past years, the 2015 SCPs plan to continue reducing the headline deficit at a constant pace over the programme period. However, both the change in the structural balance and the DFE indicate that this trend is projected to be largely driven by the expected economic recovery and to a much lesser extent by a structural improvement in fiscal positions. Thus fiscal policy over the period 2011-2018 risks being procyclical: rather large fiscal adjustments were implemented amidst a period of economic downturn in the euro area and the EU, while consolidation is projected to substantially slow down in the coming years when growth is expected to pick up.

According to their SCPs, Member States plan to continue to reduce their headline deficit over the programme horizon with aggregate headline deficits falling every year. Twenty Member States ([9]) expect to register a general government deficit below 3% of GDP by 2015, up from fifteen in 2014, which would imply that the large majority of Member States are in the preventive arm of the SGP as of 2015. As a result, the EU average headline deficit should continue to decline to 2.4% of GDP in 2015, down from 2.8% of GDP in 2014, and to reach about 0.5% of GDP in 2018. At the euro area level, having reached 2.4% of GDP in 2014, the nominal deficit is expected to decline further to 2.1% of GDP in 2015 and to reach 0.5% of GDP in 2018. By that year, all Member States plan to bring their deficits well below 3% of GDP.

Graph III.2 displays the evolution of the **nominal balances** from 2011 to 2018, showing that the planned total improvement in the EU and euro area headline deficits of respectively 2.3 and 1.9% of GDP over the programme horizon slightly exceeds the total improvement of 1.6% in both regions achieved between 2011 and 2014. The planned average annual improvement in the headline balances between 2014 and 2018 thereby remains at about ½ pp roughly unchanged compared to the average pace of the last years.

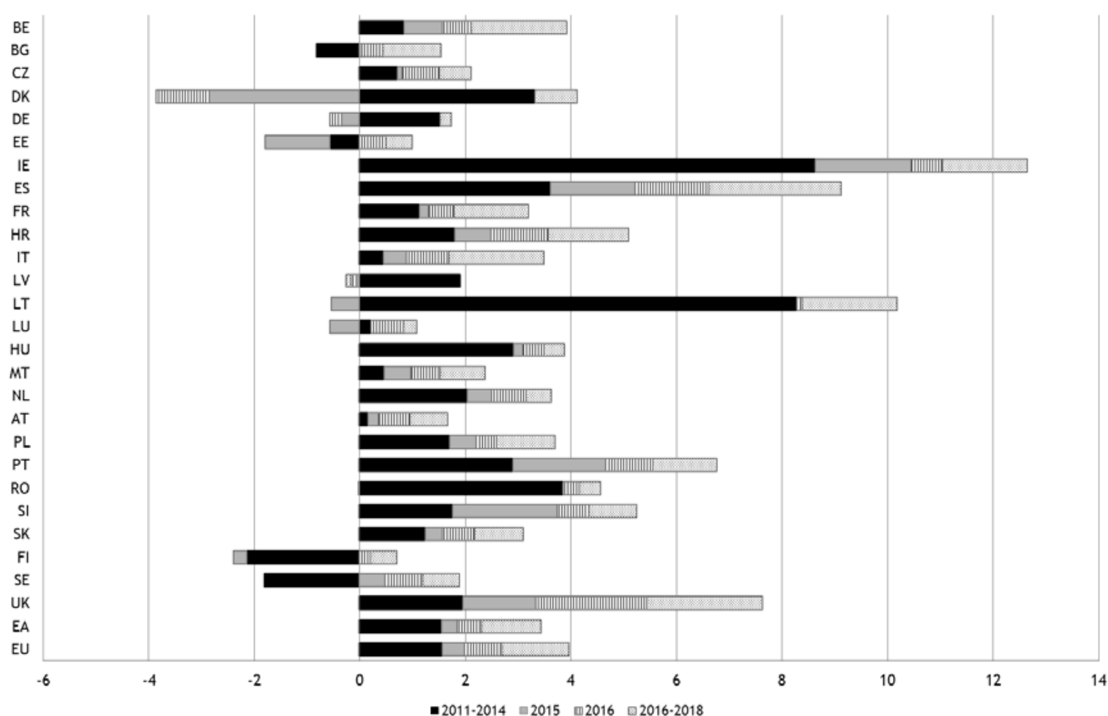
Some Member States plan a deterioration in their headline deficit figures in 2015, (Denmark, Germany, Latvia, Lithuania, Luxembourg, Romania, Finland and Sweden) with Denmark, Germany and Latvia planning a further deterioration in 2016. Still, with the exception of Latvia, the planned deterioration in all Member States is transitory and further improvements are expected in the later years. Also, in almost all cases, the headline deficit of these countries is expected to stay well below 3% of GDP in 2015 and thereafter, even after the deterioration. ([10])

The evolution of the **structural balances** from 2011 to 2018 as displayed in Graph III.3 suggests that the bulk of the consolidation effort has already taken place. Looking at the period 2011-2018 – from the moment when most Member States started consolidating under the agreed fiscal exit strategy until the end of the current programme period – about 85% of the cumulative improvement of the structural balance in the euro area will have taken place by the end of 2014. The share of the past effort in the total fiscal adjustment envisaged in the wider EU amounts to two-thirds. Only five countries (Belgium, Bulgaria, Ireland, Latvia and Malta) plan to do an equivalent amount of effort in the coming years to the one they

([9]) Belgium, Bulgaria, Czech Republic, Denmark, Germany, Ireland, Italy, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Sweden.

([10]) Finland projects headline deficit to remain above 3% by 2018. However, the projections in the Stability Programme of Finland reflect unchanged-policy assumptions.

Graph III.2: **Time profile of changes in nominal budget balance over 2011-2014 and planned for 2015-2018 as presented in 2015 SCPs**



Source: Commission services
The graph presents the 2011-2014 change in the nominal budget deficit as a percentage of GDP achieved by Member States and the planned changes over the period 2015-2018 as presented by Member States in the 2015 SCPs.

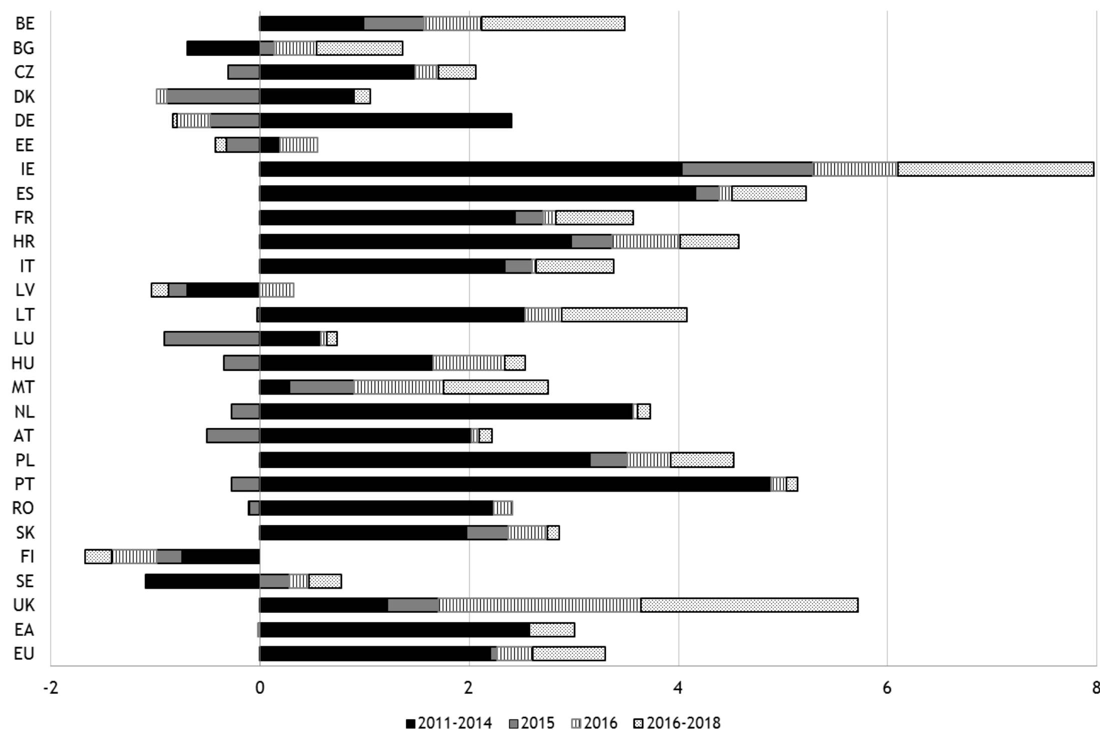
already did in the past or even more. By the end of the programme period more than half of the Member States should have reached their MTO according to the 2015 SCPs.

The average annual pace of consolidation is planned to be reduced to 0.3 pp in the EU and 0.1 pp in the euro area between 2015 and 2018, down from 0.7 pp and 0.9 pp between 2011 and 2014. In particular, the structural improvement in the euro area is planned to become 0% for two consecutive years in 2015 and 2016. The structural effort of the euro area is then projected to become and then 0.2% of GDP in 2017 and 2018. In turn, after a 0.1% of GDP structural improvement planned in the EU as a whole in 2015, the annual average consolidation effort is planned to increase to around 0.3 pp over the 2016 – 2018 horizon.

As a result, the structural deficit is projected to remain broadly constant at 1.5% of GDP in the EU in 2015 and to progressively reach 0.4% of GDP by 2018; in the euro area, the structural deficit is projected to remain constant at 0.9% of GDP and thus somewhat below the EU in 2015 and 2016, and to decline progressively thereafter to 0.4% of GDP by 2018, as in the wider EU.

It should be noted that the -1.5 and -0.9% of GDP structural balance projected for 2015 in the EU and the euro area respectively fall somewhat short of last year's plans. Also, the achievement of a structural position of -0.4% of GDP by 2018 is less ambitious than last year's plans which projected to achieve -0.2 and -0.4% of GDP in the euro area and in the EU by 2017 already. In addition, the adjustment has also become more back-loaded to the outer years, especially in the euro area.

Graph III.3: **Change in structural budget balances over 2011-2014 and planned for 2015-2018 as presented in 2015 SCPs**



Source: Commission services
The graph presents the 2011-2014 change in the structural budget deficit as a percentage of GDP achieved by Member States and the planned changes over the period 2015-2018 as presented by Member States in the 2015 SCPs.

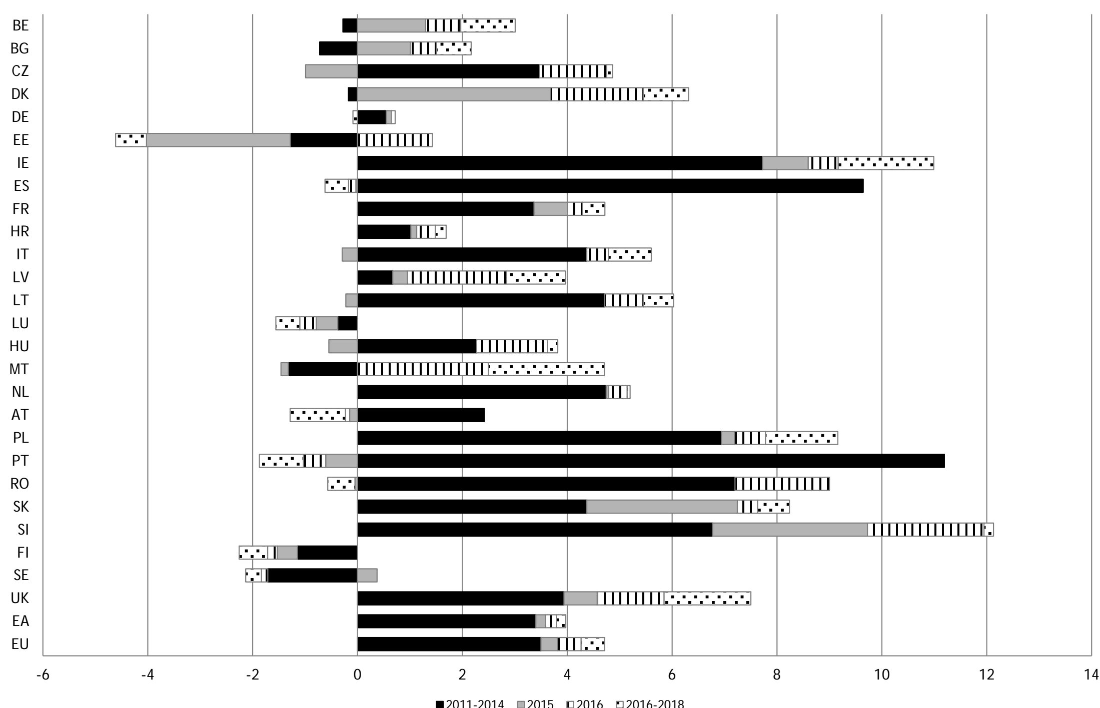
The aggregate structural balance envisaged in the SCPs for 2015 is broadly in line with the Commission 2015 spring forecast. At the same time, while the discrepancy in the structural balance projections between the SCPs and Commission forecast widens to some 0.5 pp for the EU in 2016, for the euro area the difference remains minimal, with the Commission 2015 spring forecast expecting a 0.1 pp better structural position than euro area Member States' plans.

Across Member States, the largest structural effort in the period 2015-2018 is planned by Ireland and the UK, with average annual improvements of 1 pp of GDP or more, while Belgium and Malta foresee still considerable annual average improvements of around 0.6 pp. Croatia in turn plans to consolidate by 0.5 pp in 2015 and 2016, with some slowdown in the adjustment pace in the outer years. Seventeen other Member States plan to consolidate at a more moderate annual pace below 0.5 pp, and further five Member States project an overall deterioration in their structural position over the programme horizon (Denmark, Germany, Luxembourg, the Netherlands, Austria and Finland).

In three cases, the somewhat lower effort planned in 2016 reflects the application of the so-called structural reform or pension reform clause as specified in the Communication from the Commission on marking the best use of the flexibility within the existing rules of the Stability and Growth Pact. ([11]) Specifically, Italy has applied for and is assessed to meet the eligibility criteria for the structural reform clause; Lithuania has applied for the pension reform clause and is considered to meet the eligibility

([11]) http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/2015-01-13_communication_sgp_flexibility_guidelines_en.pdf

Graph III.4: **The DFE over 2011-2014 and planned for 2015-2018 as presented in 2015 SCPs**



Source: Commission services
The graph presents the 2011-2014 DFE as a percentage of GDP implemented by Member States and the planned DFE over the period 2015-2018 as presented by Member States in the 2015 SCPs.

criteria pending Eurostat confirmation of the systemic nature of the reform, and Latvia continues to be eligible to the pension reform clause.

The analysis of the DFE provides another proxy of the fiscal effort Member States plan to implement throughout the programme horizon. Comparing Graph III.4 above with the previous one showing the change in the structural balance, the DFE shows an overall considerably larger effort for several Member States in the period 2011-2018. This also holds for the euro area and the EU as a whole, for which the total fiscal effort would amount to 4% and 4.7% respectively, with a planned effort of 0.6 pp and 1.2 pp for the period 2015-2018. The uneven distribution of such effort across time is confirmed by the DFE. In particular, according to the SCPs around 75% of the total DFE will have taken place by the end of 2014 in the EU, while the share of the already implemented effort rises to 85% in the case of the euro area.

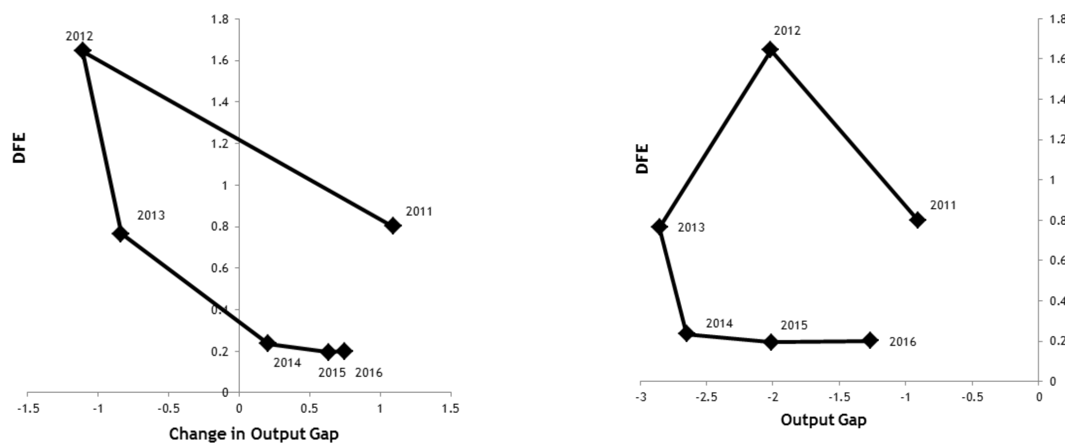
Across Member States, the DFE confirms the considerable fiscal effort planned by Ireland, the UK, Belgium and Malta over the period 2015-2018, while it points to sizeable adjustments by Denmark, Slovenia and Slovakia, which was not apparent when looking at the change in the structural balance. Furthermore, it confirms the overall loosening projected by Austria and Finland and points to a neutral fiscal stance by Germany in the years ahead. Differently from the change in the structural balance, however, the DFE points to a moderate fiscal tightening in the case of the Netherlands and an expansionary fiscal policy in the case of Portugal.

Differences between the two proxies of the fiscal effort can stem from implicitly planned revenue windfalls or shortfalls, if the SCPs' assumed budgetary elasticities differ from the standard OECD ones used in the cyclical adjustment of the government budget balance. ([12]) Beyond possible differences between the DFE and the change in the structural balance across individual Member States, the DFE confirms that the consolidation pace is planned to considerably slow down both in the EU and the euro area in the period 2015-2018.

Maintaining a constant structural position in the euro area in 2015 is broadly in line with the projections submitted in the Draft Budgetary Plans in autumn 2014. The euro area's neutral fiscal stance for 2015 was assessed by the Commission in its Communication in November 2014 as striking 'an appropriate balance between fiscal sustainability requirements, underscored by high and increasing government debt ratios, and cyclical stabilisation concerns, highlighted by significant and persistent negative output gaps which are projected to diminish only slowly in the coming years'. ([13])

In 2016, while growth is expected to pick up, the output gap should remain in negative territory for the eighth consecutive year. Against this background, the aggregate discretionary fiscal effort planned by euro area amounts to 0.2 pp, (see Graph III.5). This fiscal effort is not found to translate into an improvement in the structural balance and thereby it falls short of the aggregate SGP requirements as shown in Graph III.6 below.

Graph III.5: **Aggregate effort and economic conditions in the euro area (2011-2016)**



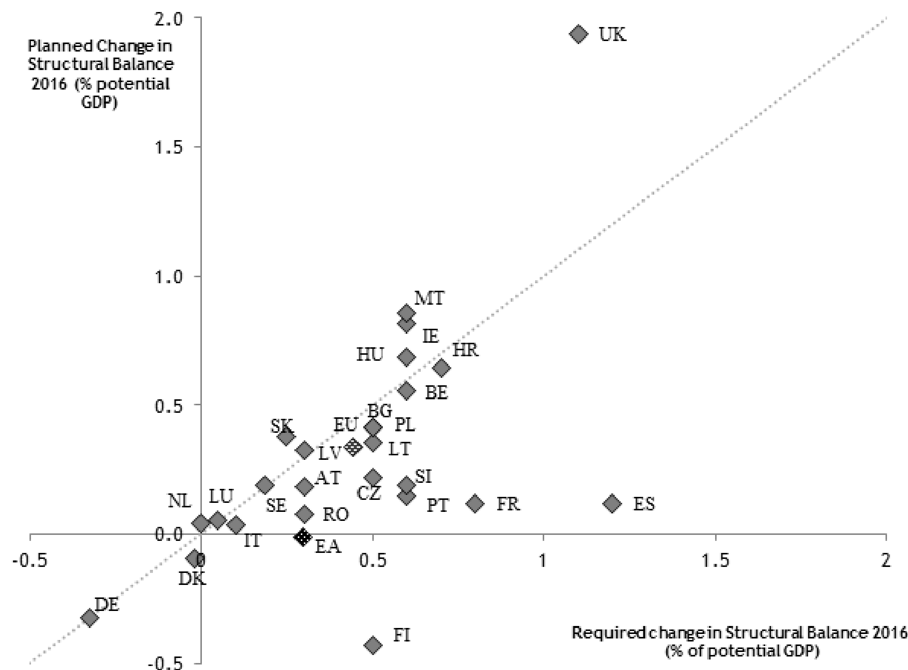
Source: Commission services
The graph plots the DFE against the change in the output (left-hand side panel) and the output gap in levels (right-hand side panel) in the euro area, as outturn in years 2011-2014 and as planned in the 2015 SCPs for years 2015 and 2016.

Specifically, Graph III.6 suggests that for several Member States, plans fall short of the required structural effort in 2016, which also translates into some shortfall at the aggregate level. In particular, among Member States expected to be under EDP in 2016, France and Spain plan significantly lower effort than recommended by the Council while the change in the structural balance projected by the UK is larger than the one recommended by the Council for that year. The majority of Member States which are expected to be in the preventive arm but not yet at their MTO in 2016, plan a structural effort that falls short of the requirement. Among the latter, the largest planned shortfall is registered by Portugal at 0.5 pp.

([12]) Moreover, the specific construction of the DFE can also generate differences between the two measures of fiscal effort. The DFE uses a medium-term potential GDP growth average as benchmark for expenditure developments and where several expenditure items are specifically treated, so as to proxy discretionary expenditure.

([13]) See Communication from the Commission: 2015 Draft Budgetary Plans – Overall Assessment; COM 2014(907), 28 November 2014, Brussels.

Graph III.6: **Structural effort in 2016 as planned in the 2015 SCPs vs. required adjustment in the structural balance under the SGP in 2016**



Source: Commission services

The graph plots the change in the structural balance (structural effort) in 2016 as planned in the SCPs against the required adjustment in the structural balance in 2016 under the Stability and Growth Pact (preventive or corrective arm requirements). For Member States under the preventive arm which are overachieving their MTO, full compliance was assumed if the planned change in the balance remained above the allowed deviation from the required adjustment. The EU and the EA were calculated as weighted averages of the required effort. The grey dotted line shows the 45 degree axis which represents compliance with the requirements. Member States above (below) the line plan to implement more (less) structural effort than required by the SGP.

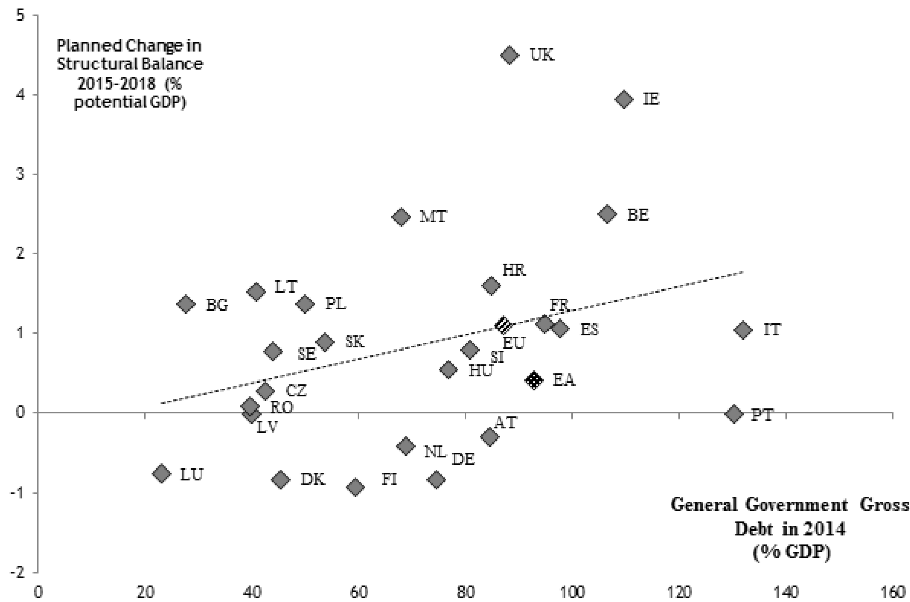
Conversely, Member States expected to be at or above their MTO in 2016, plan fiscal efforts broadly in line with the SGP requirements, albeit with some of them (Germany and to a lesser extent Luxembourg and Sweden) not fully using the fiscal space at their disposal. For Finland the graph shows the amount of additional measures that would be needed compared to the no-policy-change scenario to comply with the SGP requirements. ([14])

In order to assess the differentiation of the planned structural effort across Member States, the projected fiscal adjustment should be compared with the initial debt-to-GDP ratio on the one hand and the medium-term budgetary objective on the other hand.

Graph III.7 below plots the projected change in the structural balance until 2018 and the debt-to-GDP ratio in 2014 and shows that there is some correlation between the structural improvement planned by Member States throughout the programme horizon and the starting level of the debt-to-GDP ratio as illustrated in Graph III.7, with Member States with higher debt levels generally projecting the largest consolidation efforts, as is the case of the UK, Ireland and Belgium for instance. However, the graph also highlights the large degree of dispersion across Member States in this regard. In particular, Portugal and to some extent Italy plan to implement low levels of structural effort relative to their very high debt-to-GDP ratios.

([14]) See footnote 1.

Graph III.7: **Starting level of debt in 2014 and cumulated change in structural budget balance over the programme**



Source: Commission services
The graph sets out Member States' reported structural balances for 2014, projected structural balances for 2018 and MTOs as per 2015 SCPs. Note that the MTO will be revised applicable as from 2017.

Focusing more specifically on the progress towards the MTOs, it should be pointed out that most Member States have kept their medium-term objectives unchanged compared to the 2014 SCPs, with the exception of France which has lowered its MTO to -0.4% of GDP, down from a balanced budget MTO last year, still in line with the requirements of the SGP. ([15]) The MTOs range from a deficit of 1.7% of GDP in the case of Hungary to a surplus of 0.75% of GDP in Belgium, with euro area Member States setting out slightly more ambitious objectives on average than non-euro area Member States.

A very mixed picture in terms of the adjustment path towards the MTO emerges from Graph III.8 below which depicts each Member State's relative position with respect to their MTO in the first (2014) and last (2018) year of the programme horizon: ([16])

- Out of the ten Member States that were already at or in the vicinity of their MTO in 2014 ([17]), almost all plan to maintain it throughout the programme horizon. Denmark, Germany, the Netherlands and Luxembourg, which were above their MTO in 2014 plan to somewhat reduce their structural balance, with each of them remaining above or at their MTO by 2018. Lithuania and Sweden, at their MTO in 2014, plan to significantly overachieve it by 2018. Romania plans to remain at its MTO over the programme horizon. In turn, the Czech Republic, Portugal and Austria plan temporary deviations but return to the vicinity of their MTO by 2018. Portugal is the only country in this group currently under EDP.

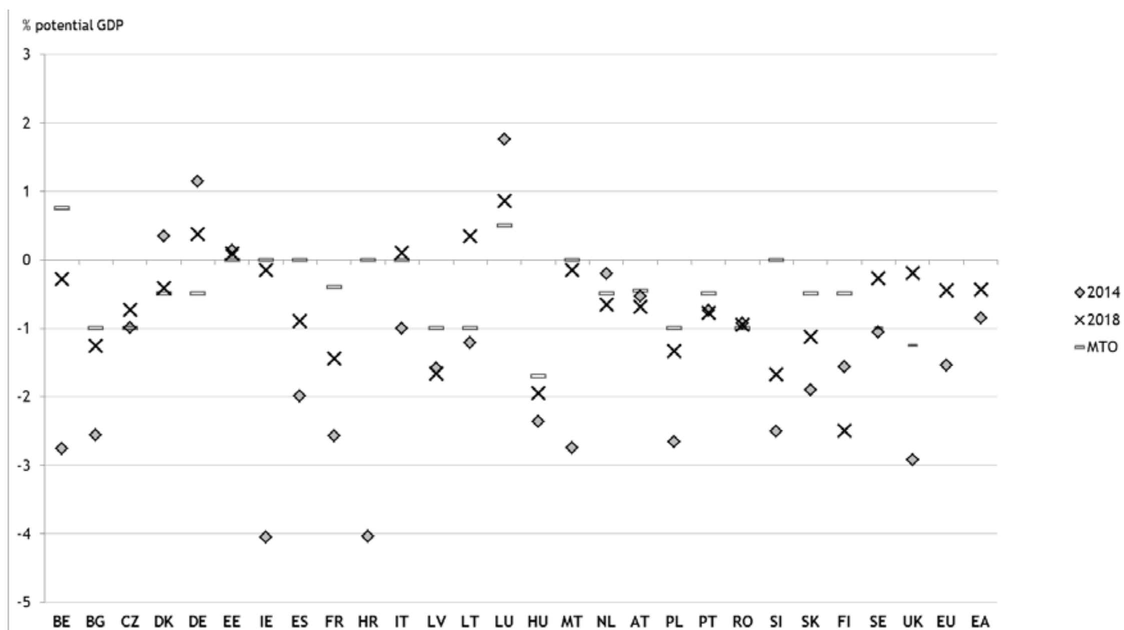
([15]) The UK and Croatia have not set any MTO. For Croatia the minimum benchmark will only be calculated at the next round of updates to be applied as of 2017. Both countries are currently under EDP .

([16]) The adjustment path towards the MTO is assessed here on the basis of the structural balance computed using the commonly agreed methodology. The recalculation of the structural balances according to the commonly agreed methodology might have an effect on the exact year of the MTO achievement as assessed in this note, when compared to the planned date presented in the programme.

([17]) There are no pivotal differences between the structural balance figures for 2014 reported by Member States in their 2015 SCPs and the ones stemming from Commission 2015 spring forecast. Only in the case of Portugal a 0.02 pp difference between the two figures is determinant for it to be assessed as having reached or not the MTO.

- In turn, among the countries not yet at their MTO in 2014, Ireland, Italy and Malta plan to reach it by 2018. The remaining ten countries do not envisage reaching their MTO during the programme period, although, with the exception of Finland, they all aim at improving their structural balances throughout it. Five countries among them – Ireland, Spain, France, Portugal and Slovenia– have a 2015 (or later) deadline to put an end to their excessive deficit situations. Therefore, their structural adjustment path until then is set by the EDP recommendation.

Graph III.8: **Progress towards MTO**



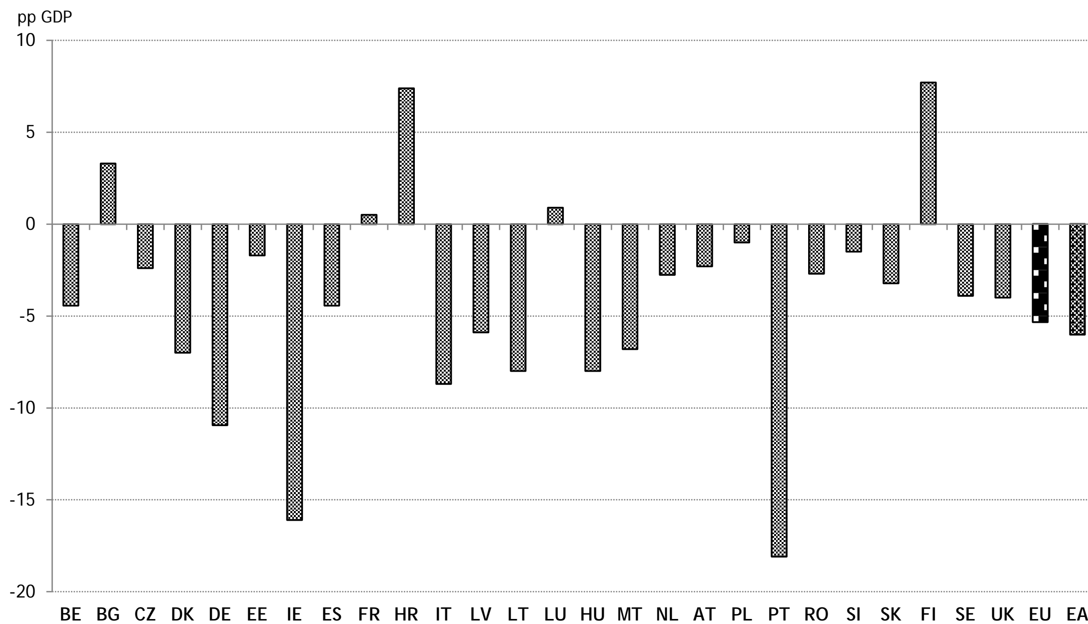
Source: Commission services
The graph sets out Member States' reported structural balances for 2014, projected structural balances for 2018 and MTOs as per 2015 SCPs. Note that the MTO will be revised applicable as from 2017 The UK has not submitted an MTO in its 2015 Convergence Programme; hence, the one depicted in the graph above corresponds to the minimum MTO calculated by the Commission.

Turning finally to the evolution of **debt** throughout the programme horizon, 2014 is expected to be the turning point year for the debt-to-GDP ratio as projected in last year's plans. According to 2015 SCPs, both EU and euro area debt-to-GDP ratios are expected to have reached their peak last year, at respectively 86.8 % and 92.7% of GDP. Both ratios are around 1.5 pp of GDP lower than was projected in 2014 SCPs for that same year. This is also confirmed by the Commission 2015 spring forecast, according to which debt as a share of GDP should start declining in 2015 in the euro area and the EU.

According to the 2015 SCPs, the debt-to-GDP ratio will start declining in 2015, falling by over 5 pp throughout the programme horizon to reach 81% and 86% of GDP in the EU and the euro area respectively by 2018.

As shown in Graph III.9 above, nearly all Member States with a debt close to or above 60% of GDP are expected to reduce their debt levels by the end of the programme period, with the exception of Croatia and Finland – with an increase of more than 7 pp throughout the programme horizon – and of France, where the debt is expected to remain broadly unchanged. In terms of average movements, Portugal, Ireland and Germany expect debt to decrease by more than 10 pp of GDP, while Italy, Lithuania, Hungary, Denmark, Malta and Latvia all foresee declines of between 6 and 9 pp. Finally, Belgium, Spain, the UK and Sweden plan a decrease of around 4 pp in the coming years.

Graph III.9: **Changes in General Government Debt (% of GDP) projected in SCPs 2014-2018**



Source: Commission services
The graph presents the changes in Member States levels of General Government Debt as a percentage of GDP between 2014 and 2018 as projected in the 2015 SCPs.

Graph III.10 shows the contribution of fiscal policy (understood here as the change in the primary balance), the difference between GDP growth and interest rates, and the stock-flow adjustment on the projected evolution of government debt. Specifically, it shows the cumulative contribution of those three elements to the change in the debt-to-GDP ratio planned for the period 2014-2018.

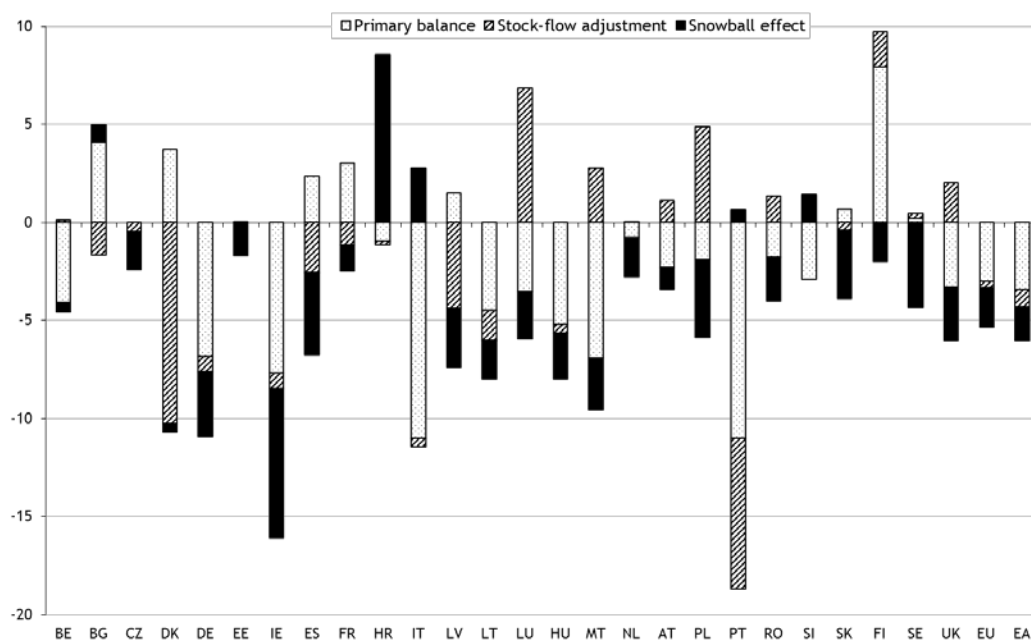
The debt ratio is expected to fall on average between 2014 and 2018, mostly as a result of improvements in the primary balance, which accounts for almost two-thirds of the overall expected improvement in the debt ratio of the EU and the euro area. In fact, the contribution of the primary balance is expected to be debt-decreasing in sixteen Member States; neutral in two Member States, and debt-increasing in seven Member States.

The evolution of stock-flow adjustments is different across Member States, although it generally contributes to reducing debt, differently from last year where the opposite was true for the majority of Member States. ([18])

Most significantly, the snowball effect is expected to contribute to the decline of the debt-to-GDP ratio in the euro area and the EU, for the first time in the last four years. In particular, according to Member States' SCPs the snowball effect should generate a decrease of around 0.4 pp of GDP per year throughout the programme horizon, both in the euro area and the EU. This is to be compared with last year's SCPs, when this effect was expected to be neutral, and the period 2011-2013 when it was projected to increase debt levels.

([18]) It should be noted, however, that the stock-flow adjustment has been computed as a residual for the purposes of this analysis, given that the information submitted in the SCPs is frequently found not to be consistent with the planned changes in debt levels. The actual measures specified as having a stock-flow adjustment effect in Member States' SCPs have in general a slightly more favorable impact on debt dynamics.

Graph III.10: **Contributions to projected changes in debt-to-GDP ratio between 2014 and 2018**



Source: Commission services
The graph decomposes the drivers of changes in debt-to-GDP ratios projected in the 2015 SCPs, setting out the contributions of the projected primary balances, stock-flow adjustments and 'snow-ball' effect. The snow-ball effect represents the difference between projected growth rates and interest rates.

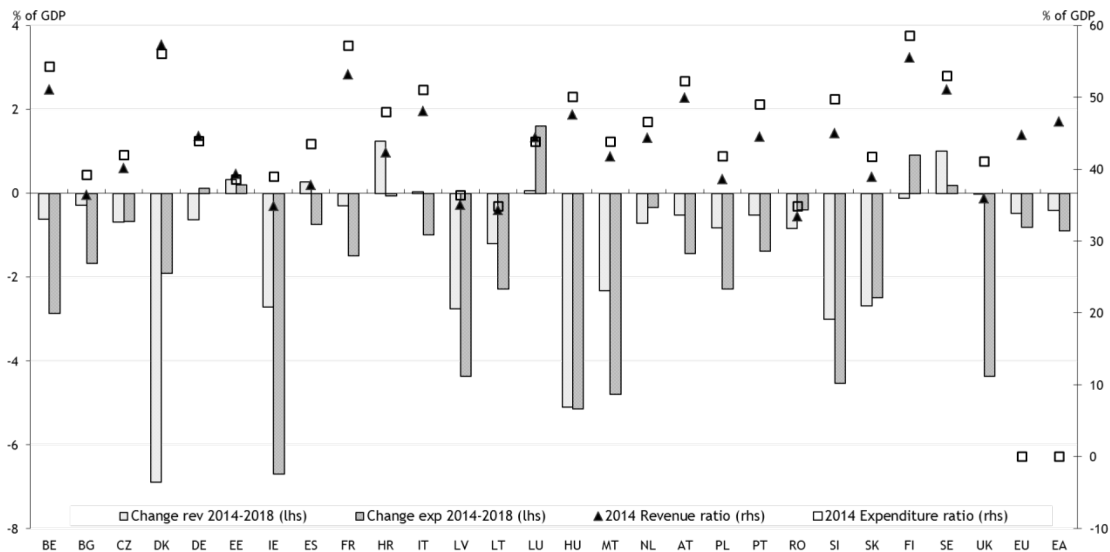
This favourable contribution of the snowball effect is expected in most Member States, with the exceptions of Croatia, Italy, Portugal, Slovenia and to a lesser extent Bulgaria. Except in the case of Croatia, the improvement in the primary balance is expected to more than compensate the debt-increasing impact of the snowball effect in these cases.

III.3. COMPOSITION OF THE ADJUSTMENT.

The EU has repeatedly advocated for a growth-friendly and differentiated fiscal policy mix among Member States. This includes an appropriate composition of consolidation in terms of both the overall expenditure-revenue combination and the selection of types of spending and taxes that are more supportive to growth. While expenditure-led consolidation should be in principle favoured, particularly when tax levels are high, the focus should be on an overall efficient and growth-friendly mix of expenditure and revenue measures.

Looking broadly into the planned expenditure and revenue changes, the slight overall consolidation effort planned in the SCPs for the period 2014-2018 seems fully expenditure-based both in the euro area and the EU, with the planned decrease in expenditure ratios more than offsetting a generally somewhat expansionary stance on the revenue side. In particular, Graph III.11 shows that between 2014 and 2018, cyclically-adjusted expenditure is expected to decrease by 0.9 pp of GDP in the euro area and by 1.4 pp in the EU. The somewhat stronger decrease in the EU's cyclically-adjusted expenditure ratio reflects primarily the large expenditure-targeted effort of the UK. In comparison, the revenue ratio is envisaged to

Graph III.11: **Projected change in cyclically-adjusted expenditure and revenue ratios (2014-2018, % GDP)**



Source: Commission services
The graph represents the planned changes in cyclically-adjusted revenue and expenditure ratios (lhs) between 2014 and 2018 against the starting expenditure- and revenue-to-GDP ratios (rhs) as notified.

decrease by almost ½ pp of GDP in both the euro area and the EU.

However, around half of the expenditure effort expected in the euro area is planned to stem from reduced interest payments. In fact, the primary cyclically-adjusted expenditure ratio is expected to decrease by only 0.5 pp in the euro area and 1.1 pp in the EU. This may pose some risks to the fiscal adjustment strategy for the years ahead as discussed in Section IV.2 below.

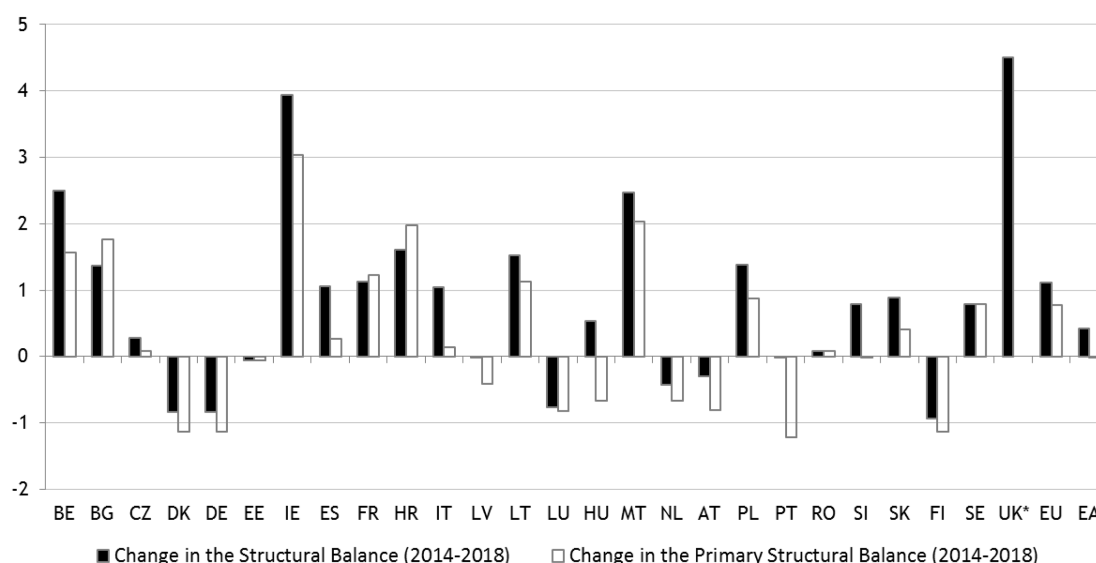
Compared to last year's plans, the expected change in the cyclically-adjusted revenue ratio remains broadly the same (a fall of around 0.4 pp both in the EU and the euro area). However, the expected decline in cyclically-adjusted expenditure ratios is now considerably less ambitious when compared to the 3.1 pp decrease in the euro area that was expected one year ago or the 2.6 pp of GDP decrease that was planned for the wider EU. The difference is more striking when the decrease in primary cyclically-adjusted expenditure ratios is compared to that planned last year, which was around four times larger in both regions (2.5 pp in the euro area and 4 pp in the EU).

Overall, due to the large impact of reduced interest payments, the cumulated structural primary adjustment over the programme horizon would be zero in the euro area as opposed to the 0.4 pp improvement in structural balance; in the EU, the structural primary adjustment amounts to 0.8 pp over the programme horizon compared to a 1.1 pp improvement in the structural balance (see Graph III.12).

Thus, the overall lower fiscal effort planned in this SCPs' update is grounded on a smaller effort on the expenditure side and a comparable slightly expansionary stance on the revenue side. A word of caution is warranted in this context: evidence of the last seventeen years shows that budgetary outcomes have recurrently deviated from planned targets mainly because expenditure ratios tend to turn out higher than planned. ([19])

([19]) See chapter III of the Report on public finances in EMU 2014. European economy 9|2014. http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee9_en.pdf

Graph III.12: **Projected change in structural balance vs structural primary balance (2014-2018, % potential GDP)**



Source: Commission services
The graph represents the cumulative change in the structural balance planned for the period 2014-2018, compared to the cumulative change in the structural primary balance projected for that same period. (*) Interest payments projections are not available in the UK's 2015 Convergence Programme.

This regularity, coupled with the reduced planned expenditure effort and the slight decrease in revenues planned for the period 2014-2018 constitutes an additional source of risks to the attainment of the budgetary targets set out in the current SCPs.

On a country-specific basis, current fiscal plans are in general maintaining the prominence of expenditure reduction over revenue increases. The 2015 SCPs show nineteen Member States planning to reduce their primary cyclically-adjusted expenditure ratios over the period to 2018. Ireland, the UK, Malta and Latvia are planning a decrease of over 4 pp of GDP, while adjustments of over 2 pp of GDP are projected in Hungary, Slovenia, Bulgaria, Slovakia, Belgium and Lithuania. A more modest expenditure adjustment between 0.5 and 1.5 pp of GDP is expected in Denmark, France, Austria and the Czech Republic. This reduction of primary cyclically-adjusted expenditure ratios will determine the planned fiscal adjustment for most of these Member States. Only Croatia and Sweden are planning instead to increase their cyclically-adjusted revenue ratios.

The planned adjustment on the expenditure side is just offset by an equivalent revenue reduction in the case of the Czech Republic, Hungary and Slovakia; in turn, the reduction in expenditure ratios is more than compensated by a decrease in cyclically-adjusted revenues in the case of Denmark, the Netherlands and Romania, which plan an overall deterioration in their primary cyclically-adjusted balances for the period 2014-2018. Germany, Luxembourg, Poland and Finland are also planning an overall deterioration in their primary cyclically-adjusted balances for the period 2014-2018, mostly through the expenditure side.

For the euro area, the current composition and magnitude of the adjustment strategy in 2015 is broadly in line with the one set out in the draft budgetary plans last autumn, as illustrated by Table III.1.

Table III.1: **Overview table of budgetary aggregates for 2015 in the draft budgetary plans and in the stability programmes for EA countries** ([20])

	2014 Draft Budgetary Plans		**2015 Stability Programmes**	
	pp change with respect to previous year	*level*	*pp change with respect to previous year*	*level*
Expenditure ratio (% of GDP)	-0.6	48.7	-0.5	48.3
Revenue ratio (% of GDP)	-0.1	46.5	-0.2	46.4
Budget balance (% of GDP)	0.4	-2.2	0.3	-2.1

Source: Commission services

Turning to the detailed **composition of consolidation on the expenditure side**, current plans tend to avoid expenditure cuts in areas that are expected to provide a greater contribution to economic growth. In particular, they appear to be less biased against public investment than in the past, while the biggest adjustments are envisaged for spending categories (compensation of employees or social payments) that are considered by the literature less harmful to growth over the medium run (see Graph III.13). However, capital expenditure is expected to still decline by 0.1% of GDP in the EU and the euro area between 2014 and 2018.

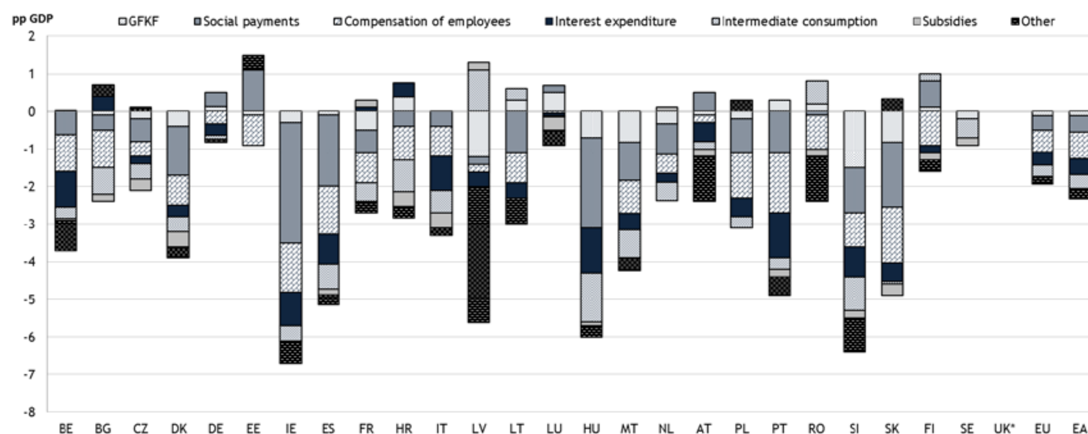
While last year three Member States were planning cuts in capital expenditure above 1% of GDP (Hungary, Lithuania and Latvia), two countries are planning cuts of such magnitude over the current programme period (Slovenia and Latvia again). Seven Member States plan instead to stabilize their public investment, while only five of them plan to moderately increase it (Romania, Lithuania, Portugal, Croatia and Luxembourg).

Around one third of the cumulative decrease of the total government expenditure-to-GDP ratio is expected to stem from a decrease in compensation of employees, which is the expenditure category that decreases most both in the euro area and the EU (around 0.7 and 0.6% of GDP). Albeit all Member States are planning to decrease compensation of employees as a ratio to GDP, the magnitude of these savings differs significantly. A group of five countries plans a decrease of 1% of GDP or more, which represents a more than 10% reduction of their total wage bill. Portugal and Slovakia stand out with their total wage bill declining by almost 17 and 13% respectively (1.6% and 1.5% of GDP), followed by Ireland and Spain with their total wage bill falling by around 12% (1.3% of GDP). This represents a continuation of last year's SCPs trend where a substantial reduction in compensation of employees was envisaged in many of the Member States. However, compensation of employees fell in 2014 by less than envisaged in last year's plans. On average, it decreased by 0.1% of GDP both in the EU and the euro area, compared to a 0.4% of GDP reduction planned in the 2014 SCPs. Across Member States, Lithuania, Poland, Austria and Sweden cut this expenditure category by exactly the amount planned, while in Ireland, Romania, the UK and Slovenia it was reduced by more than planned in the 2014 SCPs. The remaining eighteen Member States however, registered a slippage with respect to their respective plans which ranged from a minor 0.1% of GDP in the case of Italy or Germany to a substantial 0.9% of GDP in the case of Slovakia.

([20]) The comparison between EA averages resulting from 2014 DBPs and 2015 Stability Programmes is subject to two qualifications. First, the DBPs and SPs reflect the plans of all EA member states except Greece and Cyprus which are not covered by the requirement to submit neither DBPs nor SPs. Second, Lithuania did not submit a draft budgetary plan last autumn as it had not yet entered the euro area.

Cuts in social payments account for one-fifth of the cumulative overall expenditure reduction planned in the EU and the euro area, amounting to 0.6 % in the EU and 0.4% of the aggregate GDP in the euro area. All Member States are planning reduced social payments with the exception of Finland, Austria and Germany – which are planning a 0.5 pp of GDP increase over the programme horizon or more – Luxembourg and Sweden which plan to stabilize it at current levels. Given the automatic stabilisers

Graph III.13: **Planned changes in main types of expenditure (2014-2018, % GDP)**



Source: Commission services
The graph decomposes the planned changes in the expenditure ratios showing the contributions of the main components represented by the different shading.
(*)The UK has not submitted enough data in their SCPs to perform these calculations. It should be noted that the submission of data on the composition of government revenue and expenditure is optional for the final years of the programme horizon.

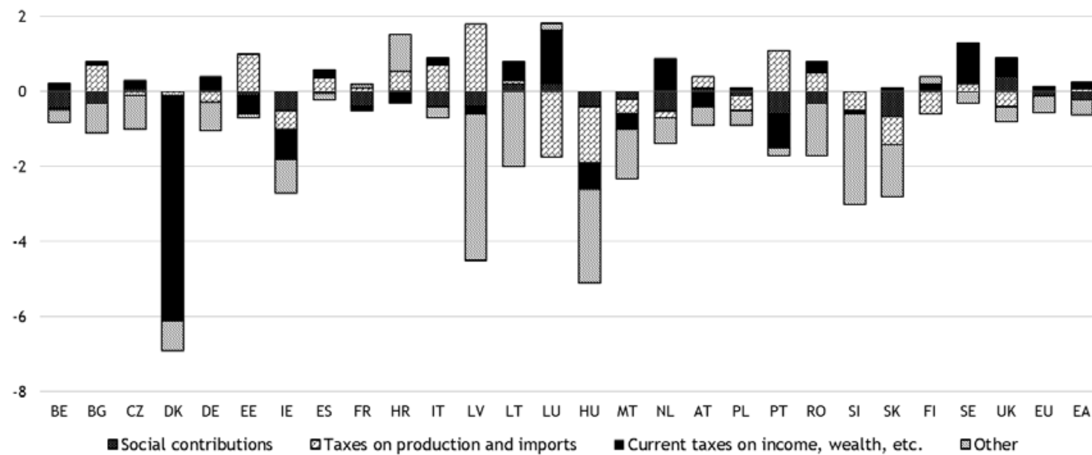
impact on this spending item, along with a strengthening of the economic recovery compared to previous years, this should at least partly reflect cyclical effects.

Around one-fifth and one-tenth of the overall cumulative decrease in expenditure ratios planned in the euro area and the EU respectively is now expected to stem from reduced interest payments. This is significantly different from last year's SCPs, when Member States expected interest expenditure to stabilize in the euro area as a whole throughout the programme horizon and increase by 0.5 pp in the wider EU. Of seventeen Member States which expect interest payments to decrease between 2014 and 2018, nine envisage a decline of at least 0.5% of GDP (Portugal, Hungary, Belgium, Italy, Ireland, Slovenia, Spain, Austria and Slovakia).

Finally, cuts in intermediate consumption are planned to amount to 0.6% of GDP over the programme horizon for the EU and 0.7% for euro area countries, while subsidies' share in GDP will stabilize at current levels.

Turning to the composition of consolidation on the revenue side, in general, direct taxes are considered more distortive than indirect taxes (see Graph III.14). For example, taxes on labour and capital

Graph III.14: **Planned changes in main types of revenue (2014-2018, % GDP)**



Source: Commission services
The graph decomposes the planned changes in the revenue ratios showing the contributions of the main components represented by the different shading.

income may negatively affect incentives to work and invest whereas recurrent property taxes are considered relatively growth-friendly. At the same time, the actual impact on growth, employment and investment however depends on the specific design of tax measures. When considering the numbers, it is also important to recall that changes to revenue-to-GDP ratios do not only reflect the impact of policy measures, but also underlying macroeconomic developments.

The 2015 SCPs forecast a small decrease in total revenues as a share of GDP on average in the EU and the euro area with only minor changes in each of the four main revenue categories.

Revenues from social security contributions are projected to continue to decrease as a share of GDP although by only 0.1 pp in the EU and 0.2 pp in the euro area. Ireland, the Netherlands, Portugal and Slovakia expect revenues from social security contributions to fall by 0.5 pp or more over the programme period, while Lithuania, Luxembourg and the United Kingdom foresee the most relevant but still modest rises of 0.2 pp or more.

Revenues from indirect taxes - mainly VAT, excise duties and energy and other environmental taxes – are planned to remain almost stable as a share of GDP. Across Member States, Latvia and Portugal plan increases over 1 pp of GDP while Hungary and Luxembourg plan decreases of 1.5 and 1.7 pp respectively.

Revenues from direct taxes – taxes on income, capital and wealth – are expected to increase slightly as a share of GDP, by 0.1 pp in the EU and 0.2 pp in the euro area. The 2015 SCPs project revenues from direct taxes to increase by 0.9 pp or more in Luxembourg, the Netherlands and Sweden. Denmark on the contrary expects a significant decrease of 6 pp.

Finally, other revenues are projected to continue to fall over the programme period as a share of GDP, by 0.4 pp on average both in the EU and the euro area. This category includes, inter alia, transfers to the government (amongst which EU grants), property income and sales of goods and services by the government. The sharpest falls, over 2 pp, are projected in Hungary, Latvia, Lithuania and Slovenia. Conversely, Croatia expects a 1 pp increase.

IV. ASSESSMENT OF RISKS TO SCPS TARGETS

IV.1. RISKS TO 2015 AND 2015 PROJECTIONS: A COMPARISON WITH COMMISSION 2015 SPRING FORECAST.

This section evaluates the risks underlying the plans presented in the 2015 SCPs focusing on the risks to deficit targets, assessed against the Commission 2015 spring economic forecasts. The risk analysis is based on the decomposition of the difference with respect to Commission forecast into three components:

1. The **policy gap** as measured by differences in the discretionary fiscal effort (DFE) underlying Member States' plans and underlying the Commission 2015 spring forecast.

2. The **growth gap**, which measures the difference resulting from the different nominal growth assumptions for the year in question. The gap is computed on the basis of OECD budget-to output-gap semi-elasticities. ([21]) Plans that rely on higher estimates of economic growth contain within them an element of risk.

3. The **residual**, which represents the part of the differences in the deficit levels which is not explained by the other two components. It includes potentially different baselines, possible differences in the assumed budgetary elasticities or other unexplained factors beyond the control of the government, such as e.g. assumptions about interest payments. In this sense, a large and positive residual represents a risk to the plans.

The deficit targets for 2015 presented in the SCPs are very close to the Commission forecasts, as it can be observed in Table IV.1. Specifically, at the aggregate euro area level, the plans imply deficits 0.1 pp above the Commission forecast and at the EU aggregate level, the plans are exactly in line with the Commission forecast. The 2015 nominal growth projections are somewhat more optimistic in the plans than in the Commission forecasts. Overall, risks to the achievement of the 2015 fiscal targets seem rather low.

Differences in the 2016 deficit targets between plans and the Commission forecast are also limited, with the aggregate deficit projected in the plans being 0.1 and 0.2 pp ([22]) lower than in the Commission forecasts for the euro area and the EU respectively. The fact that on average Member States projections

Table IV.1: **Government Balance targets in 2015 SCPs and Commission forecast**

		2014		2015		2016	
		2015 SCPs	Commission forecast	2015 SCPs	Commission forecast	2015 SCPs	Commission forecast
Euro Area	Nominal growth	2.0	2.0	2.8	2.5	3.0	3.4
	Balance (% GDP)	-2.4	-2.4	-2.1	-2.0	-1.6	-1.7
EU	Nominal growth	2.6	2.6	3.1	2.9	3.3	3.6
	Balance (% GDP)	-2.8	-2.8	-2.4	-2.4	-1.7	-2.0

Source: Commission services

([21]) Different nominal growth forecast for a given year can result in different headline deficit forecast. The OECD standard semi-elasticities are used – in the absence of a better parameter – to approximate the effect that such different nominal growth forecast can have in the headline deficit prospects.
([22]) The 0.2 pp difference is correct, due to rounding effect.

are somewhat more favourable than the Commission's ones is not surprising, as the budgetary measures planned for 2016 have not always been communicated in time to be integrated into the last Commission forecast. (23) While the differences with regard to the 2016 deficit in this year's update of SCPs are rather small compared with previous SCP updates, it is interesting to note that the plans are based on less optimistic nominal growth projections for 2016 than those of the Commission forecast, both at the euro area and at the EU level.

Table IV.2 shows the differences between the SCPs' and the Commission's 2016 deficit forecast for individual Member States and decomposes the differences into the three components mentioned above: policy gap, growth gap and residual. Most Member States plan lower headline deficits for 2016 than the Commission forecasts, but several Member States stand out. In particular, Romania's deficit forecast is over 2 pp better than the Commission forecast, followed by Croatia, Ireland and Portugal with differences of 1.7, 1.2 and 1.0 pp respectively. Bulgaria, Spain, Malta, Slovenia, Slovakia and the UK plan deficits between 0.5 and 1 pp smaller than the Commission forecast, while Germany and Lithuania project somewhat higher deficits than the Commission. The differences for other Member States are below 0.5 pp.

Table IV.2: Decomposing the difference in 2016 headline deficit projections between the SCPs and Commission 2015 spring forecast

	2016 headline deficit			Decomposing the difference			
						Residual	
	SCPs	COM	Difference (SCP-COM)	Policy gap	Growth gap	Total	*of which 2015 base effect*
BE	-2.0	-2.4	0.4	0.6	-0.1	-0.1	*0.1*
BG	-2.4	-2.9	0.5	0.1	0.3	0.1	*0.1*
CZ	-1.2	-1.5	0.3	0.4	-0.1	0.0	*0.1*
DK	-2.6	-2.6	0.0	1.4	-0.1	-1.3	*-0.1*
DE	0	0.5	- 1/2	0.3	-0.4	-0.2	*-0.4*
EE	-0.1	-0.1	0.0	1.4	-0.1	-1.2	*-0.4*
IE	-1.7	-2.9	1.2	0.3	0.2	0.7	*0.5*
ES	-2.8	-3.5	0.7	0.3	0.2	0.2	*0.3*
FR	-3.3	-3.5	0.2	0.2	-0.2	0.1	*0.0*
HR	-3.9	-5.7	1.7	1.0	-0.3	1.1	*0.5*
IT	-1.8	-2.0	0.2	0.0	-0.2	0.3	*0.0*
LV	-1.6	-1.6	0.0	2.2	-0.1	-2.1	*-0.1*
LT	-1.1	-0.9	-0.2	0.2	-0.1	-0.3	*0.3*
LU	0.7	0.3	0.4	-0.5	-0.6	1.5	*0.1*
HU	-2.0	-2.2	0.2	-1.2	-0.3	1.7	*0.1*
MT	-1.1	-1.5	0.5	0.6	0.1	-0.2	*0.2*
NL	-1.2	-1.2	0.0	0.2	-0.6	0.5	*-0.2*
AT	-1.6	-2.0	0.4	0.5	0.0	-0.1	*-0.2*
PL	-2.3	-2.6	0.3	0.3	0.4	-0.3	*0.1*
PT	-1.8	-2.8	1.0	0.4	0.1	0.5	*0.4*
RO	-1.2	-3.5	2.3	3.9	0.2	-1.9	*0.1*
SI	-2.3	-2.8	0.5	1.6	-0.4	-0.8	*0.0*
SK	-1.9	-2.5	0.6	-1.6	0.1	2.0	*0.2*
FI	-3.2	-3.2	0.0	0.0	0.3	-0.3	*-0.1*
SE	-0.7	-1.0	0.3	-0.2	0.0	0.5	*0.1*
UK	-2.2	-2.7	0.5	0.2	-0.3	0.7	*-0.1*
EU	-1.7	-2.0	0.2	0.3	-0.2	0.1	*-0.1*
EA	-1.6	-1.7	0.1	0.2	-0.2	0.1	*-0.1*

Source: Commission services
Note: a positive (negative) sign of the policy gap, growth gap or the residual each shows that the given item in the SCPs' forecast is balance-improving (deteriorating) compared with the COM forecast.
The Stability Programme of Germany reports budgetary targets rounded to ¼ percentage point of GDP.

(23) Commission forecast are based on the 'no-policy change' assumption, which implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail.

At the aggregate level, the policy gap – as measured by the difference in the DFE – seems to be the main driver of the difference in headline deficit projections. The DFE stemming from the plans is about 0.3 pp higher than forecast by the Commission for the EU and 0.2 pp higher for the euro area. At the same time, in line with the less optimistic growth forecasts underlying the plans, the growth gap is found to be slightly negative at -0.2 pp for both the EU and the euro area. Overall, both the negative growth gap and the very small residual point to the prudence of the forecasts underlying the SCPs at the aggregate level.

At the individual country level, twenty-two out of twenty-six Member States are planning higher discretionary fiscal effort than forecast by the Commission, though the policy gaps are rather small in general. The largest positive policy gap is found for Romania whose planned discretionary fiscal effort exceeds the one forecast by the Commission by close to 4 pp, followed by Latvia at 2.2 pp and Denmark and Slovenia with a gap of about 1.5 pp. Belgium, Croatia, Malta and Slovenia each have positive policy gaps between 0.5 and 1 pp. while the remaining 13 countries have gaps below 0.5 pp. Only four Member States have negative policy gaps, with the gaps of Slovakia and Hungary exceeding -1 pp.

There is a large dispersion across Member States as regards the growth gap, with fifteen out of twenty-six Member States posting a negative growth gap and eleven a positive one. Germany, the Netherlands, Luxembourg and Slovenia register negative growth gaps of around 0.5 pp, while Poland has a positive growth gap of similar order of magnitude. For most Member States, however, the growth gap is rather limited in size. This finding also points to a relative prudence in most Member States' macroeconomic forecasts. Indeed, only Bulgaria, Poland Spain and Romania forecast nominal growth 0.5 pp or more above the Commission forecast with most Member States' projections only slightly exceeding the Commission forecast or remaining even below that.

While at the aggregate level, the differences between the SCPs' and Commission's 2016 deficit forecast are to a large extent explained by the policy gap and the growth gap, leaving the residual close to zero, the residual plays a greater role when it comes to assess specific countries. In fourteen out of twenty-six Member States the residual is balance-improving. Significant positive residuals are found especially for Slovakia, Hungary, Luxembourg and Croatia (between 1 and 2 pp) and to a certain extent in Ireland, the Netherlands, Portugal, Sweden and the UK (each between 0.5 and 1 pp). A large part of the residuals can be attributed to different assumptions about revenue elasticities, i.e. assumptions on the cyclical upswing in revenue collection, or other unexplained factors beyond the control of the government. Only in the case of Ireland, Croatia and Portugal is the residual mainly driven by a base effect – with Commission's forecast for the headline deficit in 2015 being around 0.5 pp of GDP higher than that of the respective Member State. This suggests that the above Member States tend to have more optimistic assumptions underlying their deficit forecasts compared to the Commission.

Turning to the remaining eleven countries where the residual has a negative sign, Latvia, Romania, Denmark and Slovenia stand out with residuals ranging from -2 pp to -1 pp. In the case of Denmark, this is driven by a close to -1 pp difference on one-off measures between the Convergence Programme and the Commission forecast. In the case of the three other Member States, this reflects divergences in assumed elasticities; or, put differently, the fact that the headline deficit forecasts deviate from the Commission forecast less than the discretionary fiscal effort planned in the SCPs would justify. Hence, should these Member States implement their planned effort and should the economy turn out broadly in line with projections, they could overachieve their headline balance targets.

Overall, based on the residuals, the majority of Member States shows some positive bias in their projections. However, this is offset at the aggregate level by the prudence of other Member States.

Box IV.1 assesses further risks related to the revenue projections comparing total revenue projections in the plans and in the Commission forecast as well as the unchanged-policy forecasts.

Box IV.1: The unchanged policy revenue projections submitted by member States

According to the 'Guidelines on the format and content of Stability and Convergence Programmes' (i.e. the SGP Code of Conduct), Member States submit total revenue projections based on unchanged policies. These projections start at the time when the Stability and Convergence Programmes (SCPs) are drafted and include together with the extrapolation of revenue trends, the measures that have already been specified and committed to by governments. This box uses the information contained in these unchanged policies revenue projections to provide additional details on possible risks to the 2016 headline deficit targets.

The SCPs project total revenue in 2016 to reach 44.3 and 46.2 as % of GDP at the EU and the euro area levels respectively. At the aggregate level, these projections are broadly in line with the Commission forecast. When the comparison is restricted to the unchanged policies revenue projections it appears that the SCPs' underlying revenue projections – excluding the measures – tend to be broadly in line both in the EU and in the euro area as a whole. ([a])

Table IV.3: **Additional discretionary revenue measures in 2015 implicit to 2014 SCPs**

	SCP 2015 Total revenue projections (a)	SCP 2015 Unchanged policy revenues (b)	Implied measures (c)=(a)-(b)	SCP 2015 Reported DRM
% GDP	2016	2016	2016	2016
BE	50.4	50.2	0.2	0.0
BG	36.0	35.7	0.3	0.0
CZ	39.2	38.7	0.5	0.0
DK	51.5	51.3	0.2	0.0
DE	43 3/4	43 3/4	0	0
EE	40.1	39.5	0.6	0.0
IE	33.2	33.2	0.0	0.0
ES	37.8	37.3	0.5	0.0
FR	52.9	52.9	0.0	0.0
HR	43.3	42.7	0.7	n.a.
IT	48.5	48.6	-0.1	0.0
LV	32.7	32.7	0.0	0.0
LT	33.2	33.2	0.0	0.0
LU	44.7	43.9	0.8	0.0
HU	44.3	44.3	0.0	0.0
MT	40.6	40.7	-0.1	0.0
NL	44.0	44.0	0.0	0.0
AT	49.5	49.9	-0.4	0.0
PL	38.5	38.2	0.3	0.0
PT	44.8	45.0	-0.2	0.0
RO	32.6	32.6	0.0	0.0
SI	43.1	42.1	1.0	0.0
SK	36.6	36.6	0.0	0.0
FI	55.5	54.9	0.6	0.0
SE	51.6	51.6	0.0	0.0
UK	36.1	36.1	0.0	n.a.
EU	44.3	44.3	0.1	0.2
EA	46.2	46.2	0.1	0.1

Source: Commission services
The Stability Programme of Germany reports budgetary targets rounded to ¼ percentage point of GDP.

Table IV.3 above compares total revenue projections with unchanged-policy projections by Member State and assesses to what extent the difference between the two is explained by reported discretionary revenue measures (DRMs). Overall, at the aggregate level, the implicitly required revenue measures are well substantiated by reported DRMs, although the amount of these is negligible both at the EU and the euro area level. At the same time, there is a large dispersion across Member States. In particular, the reported DRMs by Luxemburg and Spain fall short by over 0.5 pp of the required measures to reach their revenue targets,

([a]) Sizeable differences emerge only in the case of the UK, which has more pessimistic no-policy change revenue projections than the Commission.

(Continued on the next page)

Box (continued)

and Hungary reported revenue-decreasing measures of 0.7% of GDP without any reduction in the growth projections compared to their no-policy-change baseline. By contrast, Romania, the Netherlands, Italy and Latvia reported revenue-increasing DRMs of over 0.5 pp while keeping their revenue targets at the unchanged policy level.

Finally, Table IV.4 compares SCPs revenue growth projections with the Commission's projections.

Table IV.4: **Comparison between SCPs and Commission 2015 spring forecast revenue projections** ([b])

	Revenues projections differences (a)	DRM differences (b)	Residuals (c)
% GDP	2016	2016	2016
BE	-0.1	-0.5	0.3
BG	0.2	-0.3	0.5
CZ	0.1	-0.4	0.5
DK	0.8	-0.9	1.7
DE	1/4	0	1/4
EE	-0.5	-0.5	0.1
IE	0.7	-0.1	0.8
ES	0.0	-0.1	0.2
FR	0.2	0.1	0.1
HR	-0.4	n.a.	n.a.
IT	-0.6	-0.2	-0.3
LV	1.3	-1.4	2.7
LT	-0.7	-0.2	-0.5
LU	-0.6	0.2	-0.8
HU	-0.5	0.5	-1.0
MT	0.2	-0.2	0.4
NL	0.5	-0.7	1.2
AT	-0.4	-0.4	0.1
PL	0.2	-0.2	0.4
PT	-0.4	-0.4	-0.1
RO	-1.8	-3.3	1.5
SI	0.3	-1.1	1.4
SK	0.9	-0.1	1.0
FI	0.0	0.1	-0.1
SE	-0.3	-0.2	-0.1
UK	2.9	n.a.	n.a.
EU	0.0	-0.2	0.2
EA	0.0	-0.1	0.1

Source: Commission services
The Stability Programme of Germany reports budgetary targets rounded to ¼ percentage point of GDP.

The difference is decomposed into the part explained by a different assessment of discretionary revenue measures and the part explained by other factors, which are typically related to different growth and / or elasticity assumptions. At the aggregate euro area and EU level, there is no difference between the SCPs' and the Commission's revenue growth projections. Also, the differences regarding the DRMs and consequently the residual remain rather small. At the individual country level however, the differences can be sizeable, sometimes pointing to some optimism bias in the growth and elasticity assumptions as is the case of Italy, Lithuania, Luxembourg and Hungary.

([b]) EU average in Table IV.3 does not include the UK and HR as these Member States have not reported discretionary revenue measures in their Convergence Programmes

IV.2. RISKS TO THE LATER YEARS' PROJECTIONS.

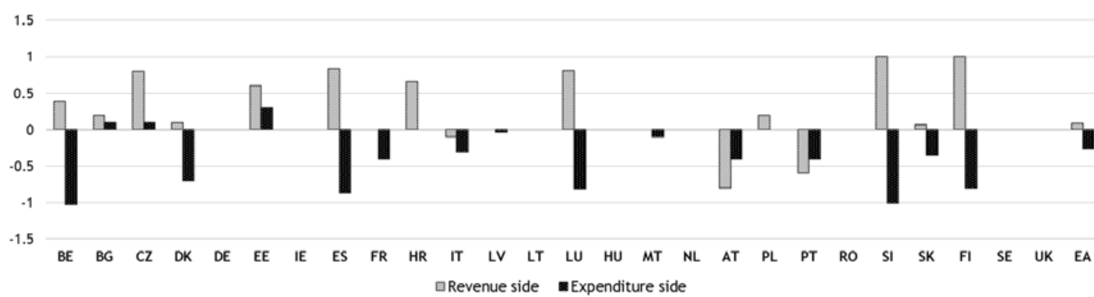
Contrary to the assessment of risks to the fiscal targets for 2015 and 2016 – where Commission forecasts provide a natural benchmark against which to assess SCPs' projections – the evaluation of risks in the later years of the programme mainly focuses on the comparison between the fiscal targets and no-policy change projections in the programmes. While all Member States submitted no-policy change revenue projections, only twenty-one of them submitted no-policy change expenditure ones.([24]) Therefore, this section focuses more specifically on the revenue-side.

Risks to the realization of the later years' deficit targets can stem from two different sources. First, the targets, even if based on realistic macroeconomic assumptions, can turn unachievable if their realisation implicitly requires a (too) large amount of additional discretionary measures. Second, the underlying assumptions – other than growth – on which the revenue targets are based or the expenditure projections are built may turn out to be optimistic. In the current context, the latter may particularly concern assumptions regarding revenue semi-elasticities and interest payments.

Member States submit data on total revenue- (and expenditure-) to-GDP targets and total revenue- (and expenditure-) to-GDP projections under a no-policy change scenario for the programme years. 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.

As it can be observed in Graph IV.1, for three Member States the realization of their planned budgetary targets in the later years of the programme requires no further measures. It is the case of Germany, the Netherlands and Sweden. These countries therefore expect that their currently projected revenue and expenditure trends will suffice to reach their budgetary targets by 2018. Additionally, for Ireland and the UK no further additional measures are needed to achieve their revenue targets according to their 2015 SCPs.

Graph IV.1: **Implicit cumulative discretionary measures necessary to reach the SCPs deficit targets in 2018**



Source: Commission services

Conversely, for the majority of Member States meeting their targets in 2018 requires the implementation of additional revenue and sometimes also expenditure measures.

Focusing on the revenue side, Slovenia and Finland stand out needing to implement cumulative revenue measures amounting to 1% of GDP in the period 2016-2018([25]) to achieve their revenue targets, while the

([24]) According to the Code of Conduct, the submission of expenditure projections at unchanged policies is voluntary. All Member States but Ireland, Croatia, Hungary, Poland and the UK submitted no-policy change expenditure projections.

([25]) Given that the 2015 budget has been already approved it is assumed here that the measures for 2015 are already incorporated in Member States' no-policy change projections.

size of the additional necessary measures amounts to 0.8% for Luxembourg, Spain and the Czech Republic over that same three-year period, and 0.6% of GDP in the case of Italy. Conversely, according to the SCPs, the attainment of the revenue targets of Austria and Portugal is compatible with revenue-decreasing measures of 0.8% and 0.6% of GDP respectively.

In the case of Spain, Luxembourg and Finland, the substantial amount of additional measures on the revenue side is coupled with the need to implement expenditure-decreasing measures amounting to 0.8% of GDP cumulatively between 2016 and 2018.Measures on the expenditure side amounting to 0.8% or more are also needed in Belgium, Denmark and Slovenia for these Member States to reach their reported budgetary targets by 2018. Additional expenditure-decreasing measures are also necessary in the case of France and Italy, though amounting to less than 0.5% of GDP cumulatively over 2016-2018 in both cases.

Overall, according to the information in the SCPs, the attainment of the euro area and EU revenue targets by 2018 would require additional cumulative revenue measures of 0.1% of GDP. In addition, the attainment of the euro area expenditure target by 2018 would require additional cumulative expenditure measures around 0.3% of GDP. This implies that the risk stemming from the size of the additional required measures is moderate on the aggregate.

However, the above figures depend, among other factors, on how the no-policy change revenue (and expenditure) projections were calculated by Member States. In particular, they are dependent on Member States' nominal GDP growth assumptions and estimates of revenue semi-elasticities. Re-computing for each Member State the no-policy change evolution of revenues at the standard OECD semi-elasticities provides a somehow different estimation of the cumulative measures Member States need to cumulatively implement to achieve their revenue –and ultimately deficit– targets by 2018. This assessment allows gauging the magnitude of a second source of risks, notably the plausibility of the underlying revenue semi-elasticity assumptions on which the fiscal targets are based.

In fact, as shown in the comparison between columns II and IV in Table IV.5, Member States have overall prudently set their revenue targets for 2018, building their no-policy change projections on less favourable revenue semi-elasticities than the standard ones. The latter is illustrated by the fact that the aggregate euro area revenue targets for 2018 are attainable, at standard semi-elasticities, through a moderate cumulative 0.2% of GDP discretionary increase in revenues, while the aggregate revenue target of the EU is even compatible with an overall 0.3% of GDP decrease on revenues. The latter is however driven mainly by the UK whose revenue target for 2018 is considerably below the unchanged policy revenue level at standard semi-elasticities. These overall prudent assumptions may build on past year trends, where observed revenue semi-elasticities were typically below their 'standard' values. However, as growth starts picking up and the output gap shrinking, revenue semi-elasticities should go back to their medium-term values.

At the same time, the comparison of the no-policy change evolution of revenues at SCPs' semi-elasticities with the equivalent at standard ones, shows that Austria, Romania, Croatia and Sweden's revenue targets rely on rather optimistic baseline estimates. The latter is also true for Lithuania, Bulgaria, Portugal, Poland and Italy, though to a lesser extent. This implies that, if standard semi-elasticities were to prevail, these Member States would need to implement considerably larger revenue measures than they are

Table IV.5: **Implicit amount of cumulative revenue measures at SCPs and standard semi-elasticities for 2017 and 2018-Comparison with Member States reported discretionary revenue measures**

	SCP 2015 Total revenue targets (I)	At SCP's revenue semi-elasticities		At 'standard' revenue semi-elasticities		SCP 2015 Reported cumulative DRMs (VI)
		Unchanged policy revenues (II)	Implied cumulative measures (III)	Unchanged policy revenues (IV)	Implied cumulative measures (V)	
% GDP	2018	2018		2018		2018
BE	50.5	50.1	0.4	50.2	0.3	0.3
BG	36.1	35.9	0.2	35.3	0.8	0.7
CZ	39.4	38.6	0.8	38.8	0.6	0.9
DK	50.4	50.3	0.1	52.1	-1.7	-0.1
DE	44	44	0	44	0	0
EE	39.6	39.0	0.6	38.6	1.0	1.0
IE	32.2	32.2	0.0	33.5	-1.3	-0.3
ES	38.1	37.3	0.8	37.4	0.7	0.1
FR	52.9	52.9	0.0	52.9	0.0	-0.4
HR	43.5	42.8	0.7	41.0	2.5	n.a.
IT	48.3	48.4	-0.1	48.2	0.1	1.3
LV	32.3	32.3	0.0	33.2	-0.9	0.9
LT	33.1	33.1	0.0	32.2	0.9	0.2
LU	44.5	43.7	0.8	45.0	-0.5	0.1
HU	42.5	42.5	0.0	43.5	-1.0	-0.9
MT	39.4	39.4	0.0	40.4	-1.0	0.2
NL	43.8	43.8	0.0	44.0	-0.2	0.9
AT	49.4	50.2	-0.8	48.6	0.8	-1.3
PL	37.8	37.6	0.2	37.3	0.5	0.4
PT	43.9	44.5	-0.6	44.0	-0.1	-0.6
RO	32.5	32.5	0.0	29.7	2.8	0.9
SI	42.0	41.0	1.0	43.2	-1.2	1.0
SK	36.2	36.1	0.1	36.6	-0.4	0.0
FI	55.3	54.3	1.0	54.6	0.7	0.5
SE	52.1	52.1	0.0	50.7	1.4	0.5
UK	36.0	36.0	0.0	39.1	-3.1	n.a.
EU	44.3	44.0	0.2	44.6	-0.3	0.2
EA	46.3	46.0	0.3	46.1	0.2	0.2

Source: Commission services
The Stability Programme of Germany reports budgetary targets rounded to ¼ percentage point of GDP.

currently envisaging and, therefore, there are risks to the attainment of their revenue – and ultimately deficit – targets.

Finally, when comparing the amount of the implicit necessary additional revenue measures as calculated with SCP semi-elasticities with the cumulative discretionary revenue measures (DRM) Member States reported in their SCPs, two different groups of Member States can be identified. The first one comprises those Member States that planned their DRM in a consistent manner, meaning that the reported DRM will overall allow them to achieve their final revenue targets if their no-policy change projections materialised. Member States in this first group include Belgium, Bulgaria, the Czech Republic, Italy, Latvia, Malta, the Netherlands or and Slovenia.

Contrary to that, the second group includes nine Member States whose reported DRM fall short of the implicit revenue measures needed to achieve their targets. It is the case of Denmark, Ireland, Spain, France, Luxembourg, Hungary, Austria, Slovakia and Finland.

Furthermore, as a corollary of their slightly optimistic baseline scenario, the measures envisaged by Bulgaria, Lithuania, Poland, Portugal, Romania and Sweden will not be sufficient to achieve their revenue targets if cyclical revenues were to evolve according to the standard semi-elasticities. Contrary to that, despite Italy envisaging a slightly optimistic no-policy change evolution of its revenue-to-GDP ratio

compared to standard semi-elasticities, the amount of additional DRM envisaged will allow this country to cover for that gap.

To sum up, little risks to the achievement of the fiscal targets by the later years of the programme seem to stem from the underlying assumptions on which revenue targets are based, which are overall prudent with few exceptions. However, a considerable gap emerges between the additional measures planned by some Member States and the ones required to achieve their declared budgetary targets, particularly at standard semi-elasticities.

Finally, an assessment of risks to the later years of the programme horizon should also consider possible reversals to **current interest rates trends**. This is the more so given that a significant part of the projected improvement in the budgetary targets of the euro area and the EU is expected to be linked to reduced interest rate payments in the coming years.

Euro area sovereign bond yields have fallen sharply since the end of 2013 and have reached historical lows. Ten-year German yields are now close to zero and spreads have narrowed drastically across Eurozone countries. Interest rates followed a similar trend in the rest of the EU as well.

The latter has translated into much lower interest payments for EU countries. In fact, interest expenditure in the euro area is projected to account for 2.3% of GDP in 2015 based on the 2015 SCPs, well below the 3.2% projected in the 2013 update of the programmes([26]). A similar readjustment of interest expenditure projections is also evident in the wider EU.

However, the current low-interest rate environment is most likely temporary, although the speed and size of future realignments remains unknown. Member States' current plans are compared to two alternative interest rate projections; see Box B below. Results suggest that 2015 SCPs interest expenditure projections are overall consistent with a gradual and smooth increase in long-term sovereign yields. However, risks would become more apparent if a sharper reversal in interest rate trends would materialise, especially for Member States with high debt-to-GDP ratios.

([26]) Note that for some countries part of the difference came from the switchover to ESA2010 in September 2014, with swaps and forward rate arrangements (FRAs) no longer affecting the definition of EDP deficit. As a result, the reported deficit of 2013 improved by 0.2% of GDP for Ireland and Italy, while it worsened by 0.3% for Finland (and by 0.2% in Sweden and Hungary outside the euro area).

Box 2: Risks associated with a gradual increase in sovereign bond yields

To assess possible risks inherent to current plans, interest rate projections in the SCPs are compared to two different scenarios in Table IV.6 below. In the first one – baseline scenario – interest rates, currently raging between 1.97% in the case of Portugal and 0.17% for Germany, linearly converge until reaching a nominal long-term interest rate of 5% by 2025. In the second one – adverse scenario – interest rates are assumed to increase more sharply, converging to their historical averages already by 2018 ([c]).

Table IV.6: **Interest expenditure in 2018 as planned in the 2015 SCPs vs projected in the baseline and alternative Commission's scenarios (% of GDP)**

% GDP	Baseline scenario 2018	Adverse scenario 2018
BE	-0.4	-0.9
BG	0.1	-0.2
CZ	-0.2	-0.3
DK	0.0	-0.1
DE	0.0	-0.2
IE	-0.1	-0.7
ES	-0.3	-0.8
FR	0.0	-0.3
HR	0.1	0.0
IT	-0.4	-0.8
LV	-0.4	-0.6
LT	-0.2	-0.3
LU	-0.1	-0.1
HU	-0.2	-1.3
MT	0.0	-0.1
NL	-0.1	-0.4
AT	-0.3	-0.5
PL	0.1	-0.3
PT	-0.6	-1.0
RO	-0.2	-1.2
SI	-0.2	-0.6
SK	0.0	-0.3
FI	0.0	-0.4
SE	0.0	-0.3
UK	0.1	-0.4
EU	-0.1	-0.4
EA	-0.1	-0.5

Source: Commission services

Table IV.6 reports the difference in % of GDP between the interest expenditure projected by each Member State for 2018 and the interest expenditure projections stemming from each corresponding scenario. These

([c]) The ten-year average is calculated over the period 2000-2010. To provide an indication of the interest rates corresponding to each scenario, the baseline one implies long-term interest rates on newly issue debt of for 2.5% Germany, 3.5% for France, 3.4% in the case of Italy and 2.4% for the UK by 2018. Conversely, the adverse scenario implies long-term interest rates of 4%, 4.2%, 4.5% and 4.5% for the above countries by 2018.

(Continued on the next page)

Box (continued)

are calculated under simplified assumptions about the share of long- and short-term debt and the further assumption of constant shares of the two ([d]). Positive values therefore imply that the SCPs projections are more conservative than the ones underlying the respective scenario and vice versa.

According to the above results, the 2015 SCPs projections appear overall consistent with the baseline scenario of a gradual and smooth increase in long-term sovereign yields, as shown by the fact that the EU and euro area average interest payments stemming from the SCPs are in line with those implied by the baseline scenario. Therefore the 2015 SCPs can be generally considered to be based on prudent assumptions as far as interest expenditure projections are concerned. Some Member States however, are projecting considerably lower interest rate payments than the ones suggested by the baseline scenario. It is the case of Portugal, Belgium, Italy, Latvia or Spain. With the exception of Latvia, all these Member States have debt ratios around or above 100% of GDP. This shows the greater vulnerability of high-debt countries to interest rate risks.

Alternatively, if interest rates were to converge to its historical averages already by the end of the programme horizon, this would imply 0.5% of GDP interest expenditure in addition to the one currently planned for 2018 in the euro area and the EU as a whole. However, such sharp increase in interest rates in the short to medium term can be considered rather unlikely for now. Thus, the assessment above confirms that current plans appear overall broadly plausible as far as interest expenditure projections are concerned.

([d]) Among the remaining assumptions, medium-term GDP growth projections are based on the so-called 'T+10' methodology agreed with Member States; structural primary balances remain constant after the period covered by the Commission's spring 2015 forecast; the cyclical components of budget balances are calculated using standard (country-specific) semi-elasticity parameters over the period until output gap closure is assumed; for all countries the inflation rate (GDP deflator) is assumed to converge linearly to 2% in the year when the output gap is closed, and remain constant thereafter; stock-flow adjustment is set to zero after the period covered by the Commission's spring 2015 forecast, meaning that no further purchases of financial assets or recapitalisations of financial institutions, nor disposal of such assets, are assumed after the last year of the forecast; the projected increase in age-related expenditure is given by the Ageing Working Group reference scenario from the 2015 Ageing Report.

V. FISCAL SUSTAINABILITY

This section assesses the sustainability of public finances across Member States, against the background of revised macroeconomic scenario, fiscal outlook, fiscal plans and the demographic ageing. The analysis presented here takes therefore as a point of departure the latest Commission 2015 spring forecasts and the 2015 Stability and Convergence Programmes. The long-term budgetary projections released with the 2015 Ageing Report have been incorporated in the simulations.([27])

The Commission's multidimensional approach for assessing fiscal sustainability 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' (S0 indicator)**. The S0 indicator is an 'early-detection indicator', designed to highlight shorter-term (one-year horizon) risks for fiscal stress stemming from the fiscal as well as the financial and competitiveness sides of the economy. A whole set of fiscal and financial-competitiveness variables are used in the composite indicator S0. ([28])

- **medium-term fiscal challenges, through fiscal gaps related to the excess of projected government expenditure, including projected age-related expenditure, notably on pension, health care and long-term care, 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 2030 (S1 indicator)**. Specifically, one component of the S1 indicator corresponds to the gap between the current (or initial) structural primary balance and the debt-stabilising primary surplus to ensure sustainability. It also includes a component which corresponds to *the cost of ageing* (CoA) estimated by the change in age-related spending in the 2015 Ageing Report. This component is the additional adjustment to the primary balance required as a result of these future expenses until 2030. Finally, the S1 indicator includes an additional component, which also depends directly on the debt requirement set at the end of the time period (60% of GDP in 2030). For countries with public debt above 60% of GDP initially, the *required adjustment to reach the target debt by 2030* (DR) term will increase the size of the indicator due to the additional effort to achieve the required debt reduction by 2030. By contrast, for countries with current debt below 60%, the DR component will be negative irrespective of pressures on the budget stemming from long-term trends, and will reduce the overall value of the fiscal gap.

- **long-term fiscal challenges, through fiscal gaps related to the excess of projected government expenditure, including projected age-related expenditure on pension, health care, long-term care, education and unemployment benefits 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 (S2 indicator).** Specifically, one component of the S2 indicator corresponds to the gap between the current (or initial) structural primary balance and the debt-stabilizing primary surplus to ensure sustainability. In addition, it includes a component which corresponds to *the cost of ageing* (CoA) estimated by the change in age-related spending in the forthcoming 2015 Ageing Report. This component is the additional adjustment to the primary balance required as a result of these future expenses over an infinite horizon. This condition is also known as the "*government's inter-temporal budget constraint*".

([27]) European Commission (DG ECFIN) and Economic Policy Committee (AWG) (2015), *"The 2015 Ageing Report: Economic and budgetary projections for the 28 EU Member States (2013-2060)"*, European Economy, No 3|2015.

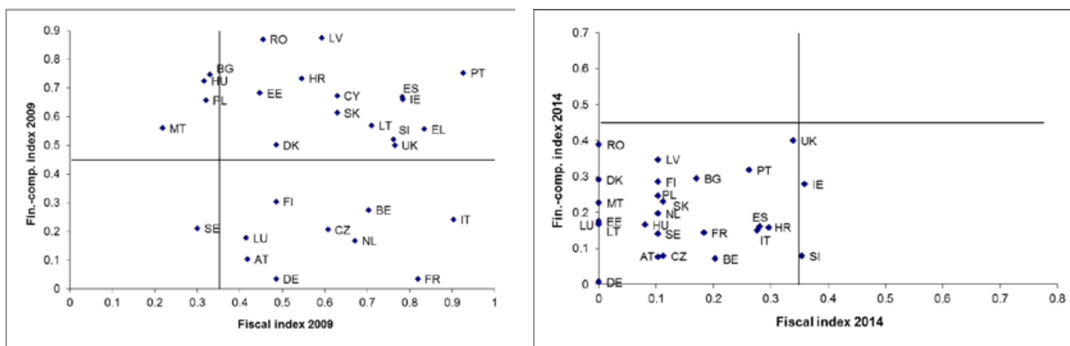
([28]) The methodology for the S0 indicator is fundamentally different from the S1 and S2 indicators, which quantify the required fiscal adjustment, the 'fiscal gap'. S0 does not assess 'fiscal gaps' but is a composite indicator estimating risks of 'fiscal stress' in the short term, using risk thresholds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

V.1. SHORT-TERM CHALLENGES: THE S0 INDICATOR – EARLY DETECTION OF FISCAL STRESS.

In terms of short-term challenges, risks for fiscal stress have been reduced in all Member States in the last years. While in 2009 more than half of the EU Member States were above the critical threshold for the S0 indicator, indicating at that time elevated risks of fiscal stress for 2010, in following years short-term risks have been progressively reduced (see Graph V.1).

According to the 2014 S0 indicator highlighting fiscal risks for 2015, no country faces short-term risks of fiscal stress among the (non-programme) EU countries (see also Table IV.6) and consequently have challenges on both the fiscal/macro-financial and competitiveness sides of the economy. However, by looking at the two thematic sub-indexes, Graph 20 highlights two countries (Ireland and Slovenia) facing short-term challenges stemming from the fiscal side, though in all these cases challenges are not as acute as to be reflected in overall high risk of fiscal stress according to the S0 indicator.

Graph V.1: **The S0 indicator, 2009 and 2014**



Source: Commission services

V.2. MEDIUM- TO LONG-TERM CHALLENGES.

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

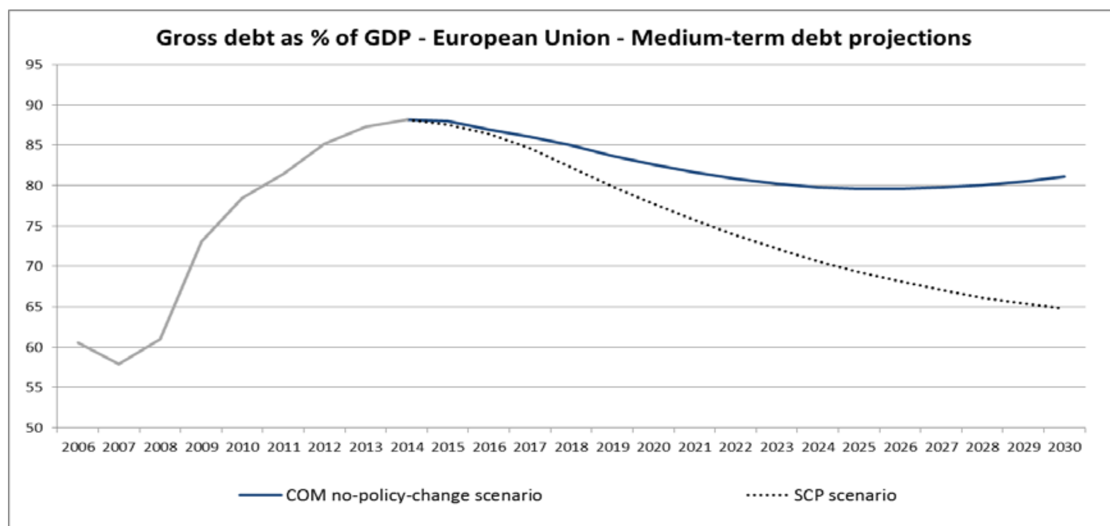
- the 'COM no-policy-change' scenario, with structural primary balance/GDP ratio kept constant at 2016 estimated level as in the Commission 2015 spring forecast (reflecting a "no-policy-change" assumption);
- the 'SCP' scenario (structural primary balance/GDP ratio kept constant at end of programme period covered by the Stability and Convergence Programmes), reflecting planned changes in fiscal policies as reported in the SCPs.

Graph V.2 depicts the projected evolution for the government gross debt ratio (including the projected change in age-related expenditure), for the EU as a whole. The solid thick line shows the outcome for this scenario under the assumption of no fiscal consolidation measures beyond those contained in the

Commission 2015 spring forecast (structural primary balance/GDP ratio kept constant at 2016 estimated level) and incorporates expected future age-related spending, as projected in the 2015 Ageing Report. ([29])

According to the Commission 2015 spring forecast, debt will start to decrease over the next two years to reach 86.9% of GDP in 2016 in the EU as a whole. Given the significant fiscal consolidation until 2016 and the expected economic recovery, debt is projected to continue to decline more strongly in the following years. Moreover, the cost of ageing as a share of GDP is almost stabilized in the years to the early 2020s. However, from the mid-2020s, the ageing costs take hold more firmly, and debt would increase slightly. As a result, debt in the EU as a whole reaches 81.1% of GDP in 2030, though with large differences across Member States.

Graph V.2: **Medium term debt projections for the EU**



Source: Commission services, 2015 Stability and Convergence Programmes.
Note: The medium-term projections are based on the Commission services' Spring 2015 forecast (up to 2016) or the 2015 Stability and Convergence Programmes and the updated t+10 projections and the macro-economic scenario of the 2015 Ageing Report. As a general rule, the output gap is assumed to close in t+5. The inflation rate (GDP deflator) converges linearly to 2% in 2019, 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 (i.e. by 2025), based on the AWG 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) EA 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 2015 Ageing Report. The primary balance is adjusted by using the budget sensitivities in the period until the output gap is assumed to be closed (by 2019 as a rule). No stock-flow adjustment assumed after the end of forecast or programme horizon).

In contrast, the debt path for the EU under the 'SCP' scenario lies well below the path obtained based on the 'COM no-policy-change' scenario (a difference of around 10 p.p. and 16 p.p. between debt ratios in 2025 and 2030, respectively). Indeed, the 'SCP' scenario would lead to a more marked reduction in the debt-to-GDP ratio with debt falling close to the Treaty reference with a value of 64.7% of GDP by 2030.

The S1 indicator – debt compliance risk

Another way of looking at the adjustment needed in the medium-to-long term with respect to unchanged policies is to calculate the additional fiscal adjustment required up to t+5 ([30]), in order to stabilize the

([29]) 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.
([30]) Base year *t* being either the end forecast (2016) or the end Stability and convergence Programme horizon (country specific, with values between 2018 and 2020) depending on the scenario considered.

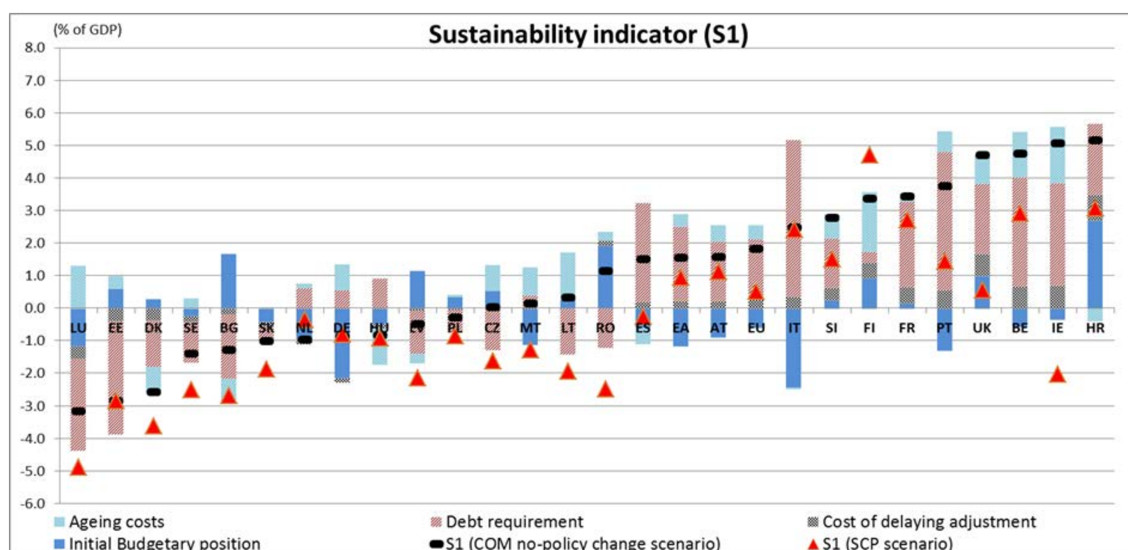
debt-to-GDP ratio at 60% by 2030 (see Graph V.3). The improvement relative to the 'COM no-policy-change' scenario required in the structural primary balance to achieve a debt-to-GDP ratio target of 60% by 2030 amounts to 1.8 percentage points of GDP over the period 2016–2021 in the EU as a whole, i.e., an average annual fiscal consolidation effort of about 1/3 percentage points per year. In other words, the structural primary balance in the EU has to improve from a forecasted surplus of 0.7% of GDP in 2016 (structural balance of -1.6% in 2016) to a surplus of 2.5% in 2021.

However, the required consolidation effort varies significantly across Member States depending on the initial structural primary balances, starting debt ratios, future ageing costs and the growth prospects over the next 20 years. It should be noted that for some Member States, the structural primary balance in 2016 - the starting point for the medium-term projections - is very high compared with what has been achieved in the past.

The adjustment of the primary balance required to reach a 60% of GDP debt ratio under the assumption of the 'COM no-policy-change' scenario would be particularly demanding, indicating high risk (a fiscal consolidation effort over the period 2016-2021 higher than 2.5 pp of GDP) in Belgium, Ireland, France, Croatia, Portugal, Slovenia, Finland and the United Kingdom. Fiscal sustainability risks would be medium for the Czech Republic, Spain, Italy, Lithuania, Malta, Austria and Romania. The others are at low risk (Bulgaria, Denmark, Germany, Estonia, Latvia, Luxembourg, Hungary, The Netherlands, Poland, Slovakia and Sweden).

If the fiscal plans in the SCPs are fully implemented and additionally not weakened after the end of the programme horizon, additional fiscal consolidation, beyond the end of the period covered by the programmes (generally 2018) would be needed in Finland, Croatia, Belgium, France, Italy, Slovenia, Portugal, Austria and the United Kingdom, to reach 60% of GDP in 2030.

Graph V.3: **S1 indicator (fiscal adjustment required until t+5 to reach a 60% public debt/GDP ratio by 2030, in per cent of GDP)**

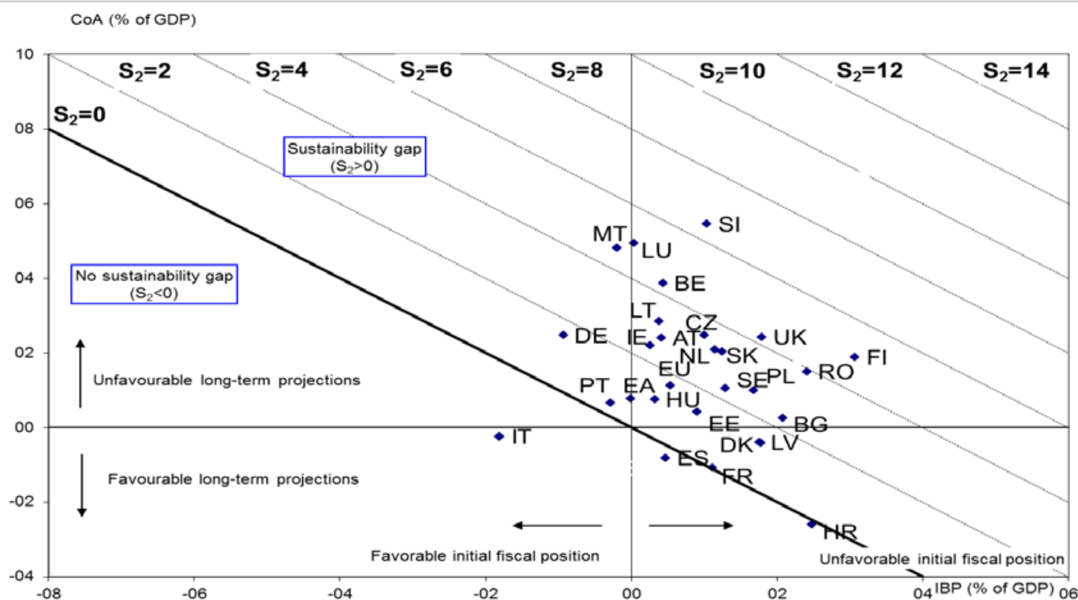


Source: Commission services. 2015 Stability and Convergence Programmes.

The S2 indicator –ageing-induced fiscal risks

In the long term, the sustainability of the fiscal position is assessed by the gap relative to the primary balance required to stabilize debt at the current level and pre-finance all the future increases in age-related expenditures. Graph V.4 shows the S2 sustainability indicator according to the 'COM no-policy-change' scenario. It shows the initial fiscal position (IBP) on the horizontal axis and the long-term change in the fiscal position due to cost of ageing (CoA) on the vertical axis. A position to the left has a favorable IBP; if it is below zero, it means that the budgetary position contributes positively to fiscal sustainability. A position towards the bottom of the axis has a low long-term 'cost of ageing'. The diagonal lines indicate the size of the sustainability gap. For example, the EU a whole has a sustainability gap of 1.7 p.p. of GDP. Most of the countries are in the top right quadrant in Graph V.4, showing that their sustainability gap is due to the compounding effects of an unfavourable initial fiscal position and an increase in the budgetary cost of Ageing. For Malta and to a lesser extent Germany and Portugal the favourable initial budgetary position is not enough to ensure long-term sustainability, given the expected long-term increase in expenditure due to the ageing population. Italy has an initial budgetary position that is favourable together with projected age-related costs that appear to be neutral from a budgetary point of view. Only Croatia, Spain, and France are in the bottom right quadrant because of a small negative sustainability gap arising from the projected decrease in age-related spending, which would also compensate for the required adjustment otherwise necessary on the basis of the initial fiscal position.

Graph V.4: **The S2 sustainability gap decomposed**

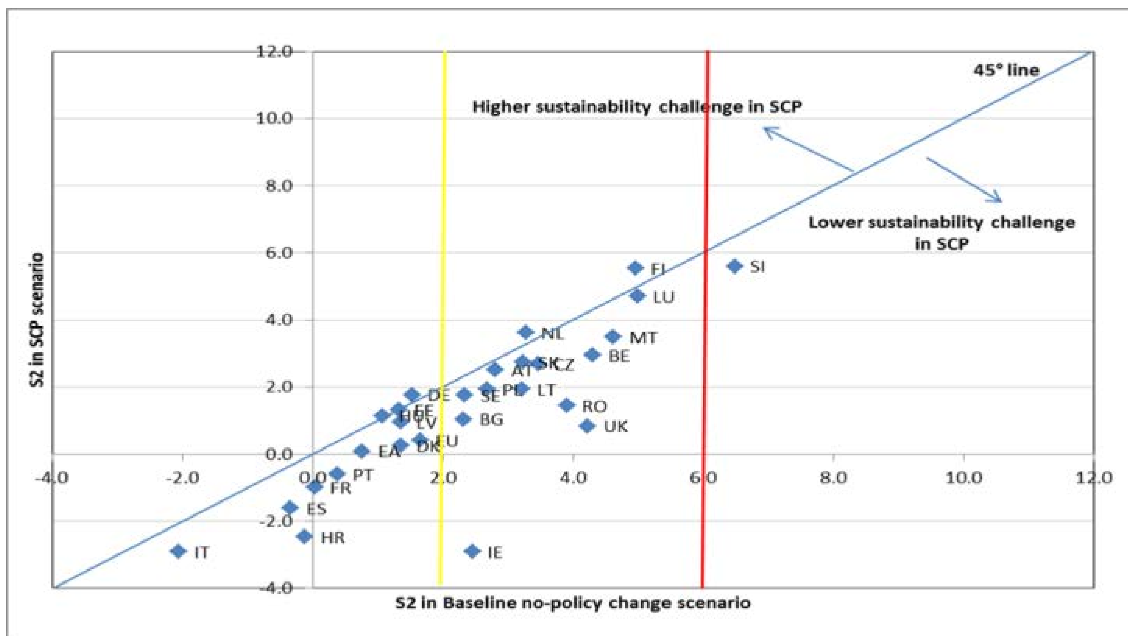


Source: Commission services

Graph V.5 shows the S2 indicator calculated on the basis of the projected changes in age-related expenditure up to 2060 (from the 2015 Ageing Report) with two different starting points: (i) the 'COM no-policy-change' scenario and (ii) the "SCP" scenario. According to the 'COM no-policy-change' scenario, fifteen Member States have a sustainability gap of 2% of GDP or more indicating medium risk ([31]) while only Slovenia has a gap higher than 6% of GDP, indicating high risk.

([31]) Belgium, Bulgaria, Czech Republic, Ireland, Lithuania, Luxembourg, Malta, the Netherlands, Austria, Poland, Romania, Slovakia, Finland, Sweden and the United Kingdom.

Graph V.5: **The S2 sustainability gap: 'Com no -*policy change' and 'SCP' scenarios**



Source: Commission services. 2015 Stability and Convergence Programmes.

The 'SCP' scenario shows the extent to which the implementation of the fiscal consolidation plans would contribute to ensuring fiscal sustainability. Under the assumption that the fiscal plans in the programmes are fully implemented, nearly all Member States are expected to have a lower sustainability gap (as shown by a position below the 45° degrees line in the figure). In the EU as a whole, the S2 fiscal gap would be 0.4% of GDP. Even assuming the full implementation of the fiscal plans in the SCPs, nine Member States would still have sustainability gaps in excess of 2 % of GDP (Belgium, Czech Republic, Luxembourg, Malta, the Netherlands, Austria, Slovenia, Slovakia and Finland). In terms of risk classification, in the 'SCP' scenario, eight Member States would go to a lower risk category (Bulgaria, Ireland, Lithuania, Poland, Romania, Sweden and the United Kingdom from 'medium' to 'low' risk and Slovenia from 'high' to 'medium' risk).

On the basis of the multidimensional approach and the indicators described in this section, a summary of the fiscal sustainability analysis is provided in Table V.1.

Table V.1: **Risk classification in the spring 2015 assessment round, COM 'no-policy-change' scenario**

	S0 Short-term fiscal sustainability challenge	S1 Medium-term fiscal sustainability challenge	S2 Long-term fiscal sustainability challenge
BE	Low (0.11)	High (4.7)	Medium (4.3)
BG	Low (0.26)	Low (-1.3)	Medium (2.3)
CZ	Low (0.09)	Medium (0)	Medium (3.5)
DK	Low (0.21)	Low (-2.6)	Low (1.4)
DE	Low (0)	Low (-0.9)	Low (1.5)
EE	Low (0.12)	Low (-2.9)	Low (1.3)
IE	Low (0.3)	High (5.1)	Medium (2.5)
ES	Low (0.2)	Medium (1.5)	Low (-0.3)
FR	Low (0.16)	High (3.4)	Low (0)
HR	Low (0.2)	High (5.1)	Low (-0.1)
IT	Low (0.19)	Medium (2.5)	Low (-2.1)
LV	Low (0.28)	Low (-0.5)	Low (1.4)
LT	Low (0.12)	Medium (0.3)	Medium (3.2)
LU	Low (0.13)	Low (-3.2)	Medium (5)
HU	Low (0.14)	Low (-0.8)	Low (1.1)
MT	Low (0.16)	Medium (0.1)	Medium (4.6)
NL	Low (0.17)	Low (-1)	Medium (3.3)
AT	Low (0.08)	Medium (1.6)	Medium (2.8)
PL	Low (0.2)	Low (-0.3)	Medium (2.7)
PT	Low (0.3)	High (3.8)	Low (0.4)
RO	Low (0.27)	Medium (1.1)	Medium (3.9)
SI	Low (0.16)	High (2.8)	High (6.5)
SK	Low (0.2)	Low (-1)	Medium (3.2)
FI	Low (0.23)	High (3.4)	Medium (5)
SE	Low (0.13)	Low (-1.4)	Medium (2.3)
UK	Low (0.38)	High (4.7)	Medium (4.2)
EU	:	Medium (1.8)	Low (1.7)
EA	:	Medium (1.6)	Low (0.8)

Source: Commission services
Note: S0 indicator: The critical threshold for the overall S0 indicator is 0.43. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.35 and 0.45.
The S1 indicator: The following thresholds were used to assess the scale of risk for 'debt compliance':
- 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 S2 indicator: The following thresholds for the S2 indicator were used:
- if the value of S2 is lower than 2, the country is assigned low risk.
- if it is between 2 and 6, it is assigned medium risk.
- if it is greater than 6, it is assigned high risk.

ANNEX 1

Table A1.1: **Output gap (% GDP)**
For SCPs: recalculated by commission services on the basis of the information in the programme according to the commonly-agreed methodology

	2015: updates of the stability and convergence programmes							Commission services'spring 2015 forecast				Difference compared to forecast (red is higher in programme)		
	2014	2015	2016	2017	2018	2019	2020	2013	2014	2015	2016	2014	2015	2016
BE	-1.3	-1.1	-0.6	-0.3	0.0	n.a.	n.a.	-1.5	-1.3	-1.1	-0.7	0.0	0.1	0.1
DE	-0.9	-0.7	-0.5	-0.4	-0.1	0.2	n.a.	-1.1	-1.0	-0.7	-0.2	0.1	-0.1	-0.3
EE	1.4	0.3	0.0	0.4	0.7	0.7	n.a.	1.6	1.3	1.0	1.3	0.0	-0.6	-1.3
IE	0.1	0.8	0.4	0.2	0.1	-0.2	-0.5	-2.5	0.1	0.9	0.8	-0.1	-0.1	-0.4
ES	-6.4	-4.0	-2.0	-0.3	1.1	n.a.	n.a.	-7.9	-6.4	-3.8	-1.8	0.1	-0.2	-0.2
FR	-2.3	-2.2	-1.7	-1.4	-0.8	n.a.	n.a.	-1.7	-2.3	-2.3	-1.7	0.0	0.1	0.0
IT	-4.1	-3.4	-2.0	-0.9	-0.2	0.2	n.a.	-4.4	-4.2	-3.5	-2.0	0.1	0.1	0.0
LV	1.3	0.8	0.5	1.0	1.2	n.a.	n.a.	0.7	1.4	1.4	1.6	-0.1	-0.6	-1.1
LU	-3.0	-1.5	-0.2	0.1	0.1	0.0	n.a.	-3.7	-2.7	-1.4	-0.2	-0.3	-0.1	0.0
MT	0.7	0.6	0.0	-0.3	-0.3	n.a.	n.a.	-0.1	0.4	0.4	0.0	0.3	0.2	0.0
NL	-3.1	-2.1	-1.1	-0.5	-0.1	n.a.	n.a.	-3.5	-3.0	-2.1	-1.1	0.0	0.0	0.0
AT	-1.0	-1.4	-1.0	-0.6	-0.2	0.3	n.a.	-0.7	-1.2	-1.3	-0.9	0.3	-0.1	-0.2
PT	-5.1	-3.5	-2.0	-0.6	0.4	1.2	n.a.	-6.7	-5.1	-3.1	-1.4	0.0	-0.3	-0.6
SI	-2.6	-1.4	-0.5	0.1	0.6	0.8	n.a.	-4.7	-2.7	-1.2	-0.1	0.1	-0.1	-0.4
SK	-3.2	-2.6	-1.8	-0.8	0.3	n.a.	n.a.	-3.1	-3.0	-2.5	-1.8	-0.3	-0.2	0.0
FI	-2.9	-2.8	-1.7	-0.8	-0.4	0.0	n.a.	-2.9	-2.9	-2.7	-1.9	0.0	0.0	0.2
EA	-2.6	-2.0	-1.3	-0.7	-0.1	0.2	n.a.	-2.8	-2.6	-2.0	-1.1	0.1	0.0	-0.1
BG	-0.2	-0.7	-1.0	-0.6	-0.1	n.a.	n.a.	0.1	0.0	-0.8	-1.4	-0.2	0.1	0.3
CZ	-2.0	-0.9	-0.2	0.0	0.3	n.a.	n.a.	-2.8	-1.9	-0.9	0.2	0.0	0.0	-0.4
DK	-3.7	-2.8	-1.8	-1.2	-0.3	0.4	0.4	-4.3	-3.8	-2.8	-1.9	0.1	0.0	0.0
LT	0.7	-0.2	-0.8	-0.2	0.9	n.a.	n.a.	0.2	0.6	0.4	0.4	0.1	-0.7	-1.2
HU	-1.0	-0.1	-0.3	0.1	0.5	n.a.	n.a.	-2.8	-0.7	0.2	0.4	-0.3	-0.4	-0.7
HR	-3.5	-3.0	-2.1	-1.1	0.0	n.a.	n.a.	-3.2	-3.5	-3.2	-2.1	0.0	0.2	0.0
PL	-0.6	-0.9	-0.7	-0.3	0.3	n.a.	n.a.	-0.7	-0.5	-0.6	-0.6	-0.1	-0.2	-0.1
RO	-1.6	-1.1	-0.8	-0.3	0.4	n.a.	n.a.	-2.1	-1.3	-0.9	-0.3	-0.3	-0.2	-0.5
SE	-1.4	-0.9	-0.5	0.0	0.5	n.a.	n.a.	-1.9	-1.4	-0.8	-0.3	0.0	-0.1	-0.3
UK	-0.9	-0.2	0.1	0.3	0.3	0.3	n.a.	-2.1	-0.8	0.2	0.8	-0.2	-0.3	-0.7
EU	-2.1	-1.6	-1.0	-0.5	0.0	0.2	n.a.	-2.3	-2.1	-1.5	-0.9	0.0	-0.1	-0.1

Source: Commission services

Table A1.2: **Real GDP growth**

	2015: updates of the stability and convergence programmes							Commission services'spring 2015 forecast				Difference compared to forecast (red is higher in programme)		
	2014	2015	2016	2017	2018	2019	2020	2013	2014	2015	2016	2014	2015	2016
BE	1.0	1.2	1.5	1.6	1.7	n.a.	n.a.	0.3	1.0	1.1	1.5	0.0	0.1	0.0
DE	1.6	1.5	1.6	1 1/4	1 1/4	1 1/4	n.a.	0.1	1.6	1.9	2.0	0.0	- 1/2	- 1/2
EE	2.1	2.0	2.8	3.4	3.2	3.0	n.a.	1.6	2.1	2.3	2.9	0.0	-0.3	-0.1
IE	4.8	4.0	3.8	3.2	3.2	3.0	3.0	0.2	4.8	3.6	3.5	0.0	0.4	0.3
ES	1.4	2.9	2.9	3.0	3.0	n.a.	n.a.	-1.2	1.4	2.8	2.6	0.0	0.1	0.3
FR	0.4	1.0	1.5	1.5	1 3/4	n.a.	n.a.	0.3	0.4	1.1	1.7	0.0	-0.1	-0.2
IT	-0.4	0.7	1.4	1.5	1.4	1.3	n.a.	-1.7	-0.4	0.6	1.4	0.0	0.1	0.0
LV	2.4	2.1	3.0	3.6	3.6	n.a.	n.a.	4.2	2.4	2.3	3.2	0.0	-0.2	-0.2
LU	3.0	3.8	3.6	3.3	3.0	2.8	n.a.	2.0	3.1	3.4	3.5	-0.1	0.4	0.1
MT	3.5	3.4	3.1	2.8	2.8	n.a.	n.a.	2.7	3.5	3.6	3.2	0.0	-0.2	-0.1
NL	0.8	1.7	1.8	1.6	1.6	n.a.	n.a.	-0.7	0.9	1.6	1.7	-0.1	0.1	0.1
AT	0.3	0.5	1.4	1.5	1.7	1.9	n.a.	0.2	0.3	0.8	1.5	0.0	-0.3	-0.1
PT	0.9	1.6	2.0	2.4	2.4	2.4	n.a.	-1.6	0.9	1.6	1.8	0.0	0.0	0.2
SI	2.6	2.4	2.0	2.1	2.2	2.2	n.a.	-1.0	2.6	2.3	2.1	0.0	0.1	-0.1
SK	2.4	2.9	3.6	3.6	3.7	n.a.	n.a.	1.4	2.4	3.0	3.4	0.0	-0.2	0.2
FI	-0.1	0.5	1.4	1.5	1.3	1.2	n.a.	-1.3	-0.1	0.3	1.0	0.0	0.2	0.4
EA	0.9	1.5	1.8	1.7	1.8	1.5	n.a.	-0.4	0.9	1.5	1.9	0.0	-0.1	-0.1
BG	1.7	1.4	1.7	2.3	2.1	n.a.	n.a.	1.1	1.7	1.0	1.3	0.0	0.4	0.4
CZ	2.0	2.7	2.5	2.3	2.3	n.a.	n.a.	-0.7	2.0	2.5	2.6	0.0	0.2	-0.1
DK	1.0	1.6	2.0	1.9	2.4	2.4	1.8	-0.5	1.1	1.8	2.1	-0.1	-0.2	-0.1
LT	2.9	2.5	3.2	3.5	3.9	n.a.	n.a.	3.3	2.9	2.8	3.3	0.0	-0.3	-0.1
HU	3.6	3.1	2.5	3.1	2.9	n.a.	n.a.	1.5	3.6	2.8	2.2	0.0	0.3	0.3
HR	-0.4	0.4	1.0	1.2	1.5	n.a.	n.a.	-0.9	-0.4	0.3	1.2	0.0	0.0	-0.3
PL	3.4	3.4	3.8	3.9	4.0	n.a.	n.a.	1.7	3.4	3.3	3.4	0.0	0.1	0.4
RO	2.8	3.2	3.4	3.7	4.0	n.a.	n.a.	3.4	2.8	2.8	3.3	0.0	0.4	0.1
SE	2.1	2.6	2.7	2.5	2.4	0.0	0.0	1.3	2.1	2.5	2.8	0.0	0.1	-0.1
UK	2.6	2.5	2.3	2.3	2.3	2.4	n.a.	2.1	2.8	2.4	2.1	-0.2	0.1	0.2
EU	1.4	1.8	2.0	2.0	2.0	1.8	n.a.	-1.0	1.4	1.8	2.0	0.0	0.0	0.0

Source: Commission services
The Stability Programme of Germany reports macroeconomic projections rounded to ¼ percentage point of GDP.

Table A1.4: **General government balance (%GDP)**

	2015: updates of the stability and convergence programmes							Commission services'spring 2014 forecast				Difference compared to forecast (red is higher in programme)		
	2014	2015	2016	2017	2018	2019	2020	2013	2014	2015	2016	2014	2015	2016
BE	-3.2	-2.5	-2.0	-1.0	-0.2	n.a.	n.a.	-2.9	-3.2	-2.6	-2.4	0.0	0.1	0.4
DE	0.6	1/4	0.0	1/4	1/4	1/2	n.a.	0.1	0.7	0.6	0.5	0.0	- 1/2	- 1/2
EE	0.6	- 3/5	-0.1	-0	2/5	1	n.a.	-0.2	0.6	-0.2	-0.1	0.0	-0.4	0.0
IE	-4.1	-2.3	-1.7	-0.9	-0.1	0.7	1.7	-5.8	-4.1	-2.8	-2.9	0.0	0.5	1.2
EL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-12.3	-3.5	-2.1	-2.2	n.a.	n.a.	n.a.
ES	-5.8	-4.2	-2.8	-1.4	-0.3	n.a.	n.a.	-6.8	-5.8	-4.5	-3.5	0.0	0.3	0.7
FR	-4.0	-3.8	-3.3	-2.7	-1.9	n.a.	n.a.	-4.1	-4.0	-3.8	-3.5	0.0	0.0	0.2
IT	-3.0	-2.6	-1.8	-0.8	0.0	0.4	n.a.	-2.9	-3.0	-2.6	-2.0	0.0	0.0	0.2
CY	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-4.9	-8.8	-1.1	-0.1	n.a.	n.a.	n.a.
LV	-1.4	-1.5	-1.6	-1.3	-1.7	n.a.	n.a.	-0.7	-1.4	-1.4	-1.6	0.0	-0.1	0.0
LU	0.6	0.1	0.7	0.7	0.9	0.8	n.a.	0.9	0.6	0.0	0.3	0.0	0.1	0.4
MT	-2.1	-1.6	-1.1	-0.6	-0.2	n.a.	n.a.	-2.6	-2.1	-1.8	-1.5	0.0	0.2	0.5
NL	-2.3	-1.8	-1.2	-0.7	-0.7	n.a.	n.a.	-2.3	-2.3	-1.7	-1.2	0.0	-0.2	0.0
AT	-2.4	-2.2	-1.6	-1.3	-0.9	-0.5	n.a.	-1.3	-2.4	-2.0	-2.0	0.0	-0.2	0.4
PT	-4.5	-2.7	-1.8	-1.1	-0.6	0.2	n.a.	-4.8	-4.5	-3.1	-2.8	0.0	0.4	1.0
SI	-4.9	-2.9	-2.3	-1.8	-1.4	-0.9	n.a.	-14.9	-4.9	-2.9	-2.8	0.0	0.0	0.5
SK	-2.9	-2.5	-1.9	-1.4	-1.0	n.a.	n.a.	-2.6	-2.9	-2.7	-2.5	0.0	0.2	0.6
FI	-3.2	-3.4	-3.2	-3.1	-2.7	-2.5	n.a.	-2.5	-3.2	-3.3	-3.2	0.0	-0.1	0.0
EA	-2.4	-2.1	-1.6	-1.0	-0.5	0.3	n.a.	-2.7	-2.4	-2.0	-1.7	0.0	-0.1	0.1
BG	-2.8	-2.8	-2.4	-1.8	-1.3	n.a.	n.a.	-0.9	-2.8	-2.9	-2.9	0.0	0.1	0.5
CZ	-2.0	-1.9	-1.2	-0.8	-0.6	n.a.	n.a.	-1.2	-2.0	-2.0	-1.5	0.0	0.1	0.3
DK	1.3	-1.6	-2.6	-2.7	-1.8	-1.1	0.0	-1.1	1.2	-1.5	-2.6	0.1	-0.1	0.0
LT	-0.7	-1.2	-1.1	0.0	0.7	n.a.	n.a.	-2.6	-0.7	-1.5	-0.9	0.0	0.3	-0.2
HU	-2.6	-2.4	-2.0	-1.7	-1.6	n.a.	n.a.	-2.5	-2.6	-2.5	-2.2	0.0	0.1	0.2
HR	-5.7	-5.0	-3.9	-2.7	-2.4	n.a.	n.a.	-5.4	-5.7	-5.6	-5.7	0.0	0.5	1.7
PL	-3.2	-2.7	-2.3	-1.8	-1.2	n.a.	n.a.	-4.0	-3.2	-2.8	-2.6	0.0	0.1	0.3
RO	-1.5	-1.5	-1.2	-1.0	-0.8	n.a.	n.a.	-2.2	-1.5	-1.6	-3.5	0.0	0.1	2.3
SE	-1.9	-1.4	-0.7	-0.4	0.0	0.0	0.0	-1.4	-1.9	-1.5	-1.0	0.0	0.1	0.3
UK	-5.2	-4.3	-2.2	-0.8	0.0	0.1	n.a.	0.0	0.0	0.0	0.0	-5.2	-4.3	-2.2
EU	-2.8	-2.4	-1.7	-1.0	-0.5	0.2	n.a.	-3.1	-2.8	-2.4	-2.0	-0.4	-0.5	-1.3

Source: Commission services
The Stability Programme of Germany reports budgetary targets rounded to ¼ percentage point of GDP.

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

	2015: updates of the stability and convergence programmes							Commission services'spring 2015 forecast				Difference compared to forecast (red is higher in programme)		
	2014	2015	2016	2017	2018	2019	2020	2013	2014	2015	2016	2014	2015	2016
BE	54.3	53.1	52.3	51.4	50.6	n.a.	n.a.	54.5	54.3	53.3	52.6	0.0	-0.2	-0.3
DE	43.9	44	43 3/4	43 3/4	43 1/2	43 1/2	n.a.	44.3	43.9	43.7	43.5	0.0	1/4	1/4
EE	38.6	41.7	40.2	40.5	39.2	38.2	n.a.	38.8	38.8	40.2	39.8	-0.2	1.5	0.4
IE	39.0	36.6	34.9	33.6	32.3	31.2	29.9	40.7	39.0	37.2	36.8	0.0	-0.6	-1.9
ES	43.6	42.0	40.6	39.5	38.4	n.a.	n.a.	44.3	43.6	42.4	41.4	0.0	-0.4	-0.8
FR	57.2	56.8	56.1	55.5	54.8	n.a.	n.a.	57.0	57.2	56.9	56.5	0.0	-0.1	-0.4
IT	51.1	50.5	49.9	48.6	47.8	46.9	n.a.	50.9	51.1	50.6	49.9	0.0	-0.1	0.0
LV	36.4	35.6	34.3	32.9	32.1	n.a.	n.a.	36.0	36.9	36.1	35.6	-0.5	-0.5	-1.3
LU	43.8	44.3	44.0	43.9	43.6	43.7	n.a.	43.6	44.0	44.4	43.8	-0.2	-0.1	0.2
MT	43.8	44.2	41.7	40.5	39.6	n.a.	n.a.	42.3	43.8	44.3	42.4	0.0	-0.2	-0.7
NL	46.6	45.6	45.2	44.5	44.5	n.a.	n.a.	46.8	46.6	46.5	45.7	0.0	-0.9	-0.5
AT	52.3	52.1	51.2	50.7	50.4	49.9	n.a.	50.9	52.3	52.0	51.2	0.0	0.1	0.0
PT	49.0	47.9	46.5	45.5	44.4	43.3	n.a.	50.1	49.0	48.0	47.2	0.0	-0.1	-0.7
SI	49.8	47.6	45.3	44.3	43.4	42.4	n.a.	59.9	49.8	47.7	46.2	0.0	-0.1	-0.9
SK	41.8	40.9	38.5	37.9	37.2	n.a.	n.a.	41.0	41.8	42.4	40.1	0.0	-1.5	-1.5
FI	58.6	59.1	58.7	58.3	58.0	57.9	n.a.	57.8	58.7	58.9	58.7	-0.1	0.2	0.0
EA	49.0	48.4	47.8	47.1	46.6	44.7	n.a.	49.2	49.0	48.6	48.0	0.0	-0.1	-0.2
BG	39.2	38.8	38.4	37.9	37.5	n.a.	n.a.	38.3	39.2	39.3	39.1	0.0	-0.5	-0.7
CZ	42.0	42.1	40.5	40.3	40.0	n.a.	n.a.	41.9	42.0	42.0	40.8	0.0	0.1	-0.3
DK	56.1	55.4	54.1	53.2	52.2	51.4	50.9	57.1	57.2	56.3	54.9	-1.1	-0.9	-0.8
LT	34.9	35.6	34.3	33.1	32.5	n.a.	n.a.	35.5	34.9	33.9	33.4	0.0	1.7	0.9
HU	50.1	49.1	46.3	44.9	44.1	n.a.	n.a.	49.8	50.1	49.2	46.0	0.0	-0.1	0.3
HR	48.0	47.9	47.3	46.4	45.9	n.a.	n.a.	47.7	48.0	48.3	48.6	0.0	-0.4	-1.3
PL	41.8	41.5	40.8	39.8	39.0	n.a.	n.a.	42.2	41.8	41.7	41.3	0.0	-0.2	-0.5
RO	34.9	35.1	33.8	33.6	33.3	n.a.	n.a.	35.2	34.9	34.7	34.3	0.0	0.4	-0.5
SE	53.0	52.6	52.3	52.2	52.1	0.0	0.0	53.3	53.0	52.7	52.3	0.0	-0.1	0.0
UK	41.1	39.9	38.3	36.9	36.0	35.9	n.a.	45.2	44.1	43.0	41.7	-3.0	-3.1	-3.4
EU	47.5	46.9	46.0	45.2	44.6	42.4	n.a.	48.4	48.0	47.4	46.6	-0.5	-0.5	-0.6

Source: Commission services
The Stability Programme of Germany reports budgetary targets rounded to ¼ percentage point of GDP.

Table A1.6: **General government total revenue (%GDP)**

	2015: updates of the stability and convergence programmes							Commission services'spring 2015 forecast				Difference compared to forecast (red is higher in programme)		
	2014	2015	2016	2017	2018	2019	2020	2013	2014	2015	2016	2014	2015	2016
BE	51.1	50.6	50.4	50.4	50.5	n.a.	n.a.	51.5	51.1	50.7	50.2	0.0	-0.1	0.1
DE	44.6	44 1/4	43 3/4	44	44	44	n.a.	44.5	44.6	44.3	44.0	0.0	0.0	- 1/4
EE	39.3	41.1	40.1	40.4	39.6	39.2	n.a.	38.5	39.4	39.9	39.6	-0.1	1.2	0.5
IE	34.9	34.3	33.2	32.6	32.2	31.9	31.6	34.9	34.9	34.4	33.9	0.0	-0.1	-0.7
ES	37.8	37.8	37.8	38.0	38.1	n.a.	n.a.	37.5	37.8	37.9	37.8	0.0	-0.1	0.0
FR	53.2	53.1	52.9	52.8	52.9	n.a.	n.a.	52.9	53.2	53.1	53.1	0.0	0.0	-0.2
IT	48.1	48.0	48.5	48.4	48.3	47.9	n.a.	48.0	48.1	48.0	47.9	0.0	0.0	0.6
LV	35.0	34.2	32.7	32.7	32.3	n.a.	n.a.	35.3	35.5	34.7	34.0	-0.5	-0.5	-1.3
LU	44.4	44.4	44.7	44.5	44.5	44.4	n.a.	44.4	44.7	44.4	44.1	-0.2	0.0	0.6
MT	41.7	42.6	40.6	39.9	39.4	n.a.	n.a.	39.7	41.7	42.5	40.9	0.0	0.1	-0.2
NL	44.3	43.8	44.0	43.8	43.8	n.a.	n.a.	44.5	44.3	44.8	44.5	0.0	-1.0	-0.5
AT	49.9	49.9	49.5	49.5	49.4	49.4	n.a.	49.6	49.9	50.0	49.1	0.0	-0.1	0.4
PT	44.5	45.2	44.8	44.3	43.9	43.4	n.a.	45.2	44.5	45.0	44.4	0.0	0.2	0.4
SI	45.0	44.7	43.1	42.5	42.0	41.5	n.a.	45.0	45.0	44.8	43.4	0.0	-0.1	-0.3
SK	38.9	38.3	36.6	36.6	36.2	n.a.	n.a.	38.4	38.9	39.6	37.5	0.0	-1.3	-0.9
FI	55.5	55.6	55.5	55.2	55.3	55.4	n.a.	55.2	55.5	55.6	55.5	0.0	0.0	0.0
EA	46.6	46.4	46.2	46.2	46.2	45.4	n.a.	46.5	46.6	46.5	46.3	-2.4	-2.2	-1.8
BG	36.4	35.9	36.0	36.1	36.1	n.a.	n.a.	37.4	36.4	36.4	36.2	0.0	-0.5	-0.2
CZ	40.1	40.3	39.2	39.4	39.4	n.a.	n.a.	40.8	40.1	40.0	39.3	0.0	0.3	-0.1
DK	57.3	53.7	51.5	50.5	50.4	50.3	50.9	56.0	58.5	54.8	52.3	-1.2	-1.1	-0.8
LT	34.3	34.4	33.2	33.1	33.1	n.a.	n.a.	32.9	34.3	32.4	32.5	0.0	2.0	0.7
HR	42.3	42.9	43.3	43.7	43.5	n.a.	n.a.	42.4	42.3	42.7	42.9	0.0	0.1	0.4
HU	47.6	46.7	44.3	43.3	42.5	n.a.	n.a.	47.3	47.6	46.7	43.8	0.0	0.0	0.5
PL	38.6	38.8	38.5	37.9	37.8	n.a.	n.a.	38.2	38.6	38.9	38.7	0.0	-0.1	-0.2
RO	33.4	33.6	32.6	32.6	32.5	n.a.	n.a.	33.0	33.4	33.1	30.8	0.0	0.5	1.8
SE	51.1	51.2	51.6	51.8	52.1	n.a.	n.a.	51.9	51.1	51.2	51.3	0.0	0.0	0.3
UK	35.9	35.5	36.1	36.0	36.0	36.0	n.a.	39.4	38.9	38.8	39.0	-3.0	-3.3	-2.9
EU	44.7	44.4	44.3	44.2	44.2	42.9	n.a.	46.1	45.8	45.1	44.8	-3.3	-3.0	-2.3

Source: Commission services
The Stability Programme of Germany reports budgetary targets rounded to ¼ percentage point of GDP.

Table A1.7: **General government total debt (% GDP)**

	2015: updates of the stability and convergence programmes							Commission services'spring 2015 forecast				Difference compared to forecast (red is higher in programme)		
	2014	2015	2016	2017	2018	2019	2020	2013	2014	2015	2016	2014	2015	2016
BE	106.5	106.9	106.3	104.6	102.0	n.a.	n.a.	104.4	106.5	106.5	106.4	0.0	0.4	-0.1
DE	74.7	71 1/2	68 3/4	66	63 3/4	61 1/2	n.a.	77.1	74.7	71.5	68.2	0.0	0.0	1/2
EE	10.6	10.3	9.9	9.6	8.9	8.4	n.a.	10.1	10.6	10.3	9.8	0.0	0.0	0.1
IE	109.7	105.0	100.3	97.8	93.6	89.4	84.7	123.2	109.7	107.1	103.8	0.0	-2.1	-3.5
ES	97.7	98.9	98.5	96.5	93.2	n.a.	n.a.	92.1	97.7	100.4	101.4	0.0	-1.5	-2.9
FR	95.0	96.3	97.0	96.9	95.5	n.a.	n.a.	92.3	95.0	96.4	97.0	0.0	-0.1	0.0
IT	132.1	132.5	130.9	127.4	123.4	120.0	n.a.	128.5	132.1	133.1	130.6	0.0	-0.6	0.3
LV	40.0	37.0	40.0	37.3	34.1	n.a.	n.a.	38.2	40.0	37.3	40.4	0.0	-0.3	-0.4
LU	23.1	23.9	24.2	24.2	24.0	23.8	n.a.	24.0	23.6	24.9	25.3	-0.5	-0.9	-1.1
MT	68.0	66.8	65.6	63.8	61.2	n.a.	n.a.	69.2	68.0	67.2	65.4	0.0	-0.4	0.2
NL	68.8	68.8	67.8	67.0	66.1	n.a.	n.a.	68.6	68.8	69.9	68.9	0.0	-1.1	-1.0
AT	84.5	86.8	85.7	84.1	82.2	79.7	n.a.	80.9	84.5	87.0	85.8	0.0	-0.2	-0.1
PT	130.2	124.2	121.5	116.6	112.1	107.6	n.a.	129.7	130.2	124.4	123.0	0.0	-0.2	-1.5
SI	80.9	81.6	78.7	79.6	79.4	78.2	n.a.	70.3	80.9	81.5	81.7	0.0	0.1	-3.0
SK	53.6	53.4	52.8	51.9	50.3	n.a.	n.a.	54.6	53.6	53.4	53.5	0.0	0.0	-0.7
FI	59.3	62.5	64.4	66.0	67.0	67.8	n.a.	55.8	59.3	62.6	64.8	0.0	-0.1	-0.4
EA	92.9	92.2	90.9	89.1	86.7	81.9	n.a.	91.9	92.9	92.6	91.2	0.0	-0.4	-0.3
BG	27.6	29.8	30.1	30.4	30.9	n.a.	n.a.	18.3	27.6	29.8	31.2	0.0	0.0	-1.1
CZ	42.6	40.9	40.9	40.7	40.2	n.a.	n.a.	45.0	42.6	41.5	41.6	0.0	-0.6	-0.7
DK	45.3	39.8	39.4	39.0	38.3	37.0	36.7	45.0	45.2	39.5	39.2	0.1	0.3	0.2
LT	40.9	42.2	37.7	39.4	32.9	n.a.	n.a.	38.8	40.9	41.7	37.3	0.0	0.5	0.4
HU	76.9	74.9	73.9	71.3	68.9	n.a.	n.a.	77.3	76.9	75.0	73.5	0.0	-0.1	0.4
HR	85.0	89.8	92.0	92.5	92.4	n.a.	n.a.	80.6	85.0	90.5	93.9	0.0	-0.7	-1.9
PL	50.1	51.7	51.6	50.7	49.1	n.a.	n.a.	55.7	50.1	50.9	50.8	0.0	0.8	0.8
RO	39.8	40.1	39.4	38.4	37.1	n.a.	n.a.	38.0	39.8	40.1	42.4	0.0	0.0	-3.0
SE	43.9	44.2	42.8	41.5	40.0	n.a.	n.a.	38.7	43.9	44.2	43.4	0.0	0.0	-0.6
UK	88.4	88.8	88.7	87.1	84.4	n.a.	n.a.	0.0	0.0	0.0	0.0	88.4	88.8	88.7
EU	86.9	86.4	85.4	83.6	81.2	80.3	n.a.	86.0	86.9	86.8	85.8	0.0	-0.4	-0.4

Source: Commission services
The Stability Programme of Germany reports budgetary targets rounded to ¼ percentage point of GDP.

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