EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 20 May 2020

Assessment of the 2019-20 Convergence Programme for the United Kingdom

(Note prepared by DG ECFIN staff)

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EXECUTIVE SUMMARY

- On 6 April 2020, the Commission provided guidelines to the Economic and Financial Committee on how the format and content of the 2020 Stability and Convergence Programmes can be streamlined in light of the exceptional circumstances related to the Covid-19 pandemic. This assessment takes into account the severe constraints that countries faced in providing the information usually required in their Programmes. The assessment focuses on the near term in light of the high uncertainty attached to the projections.
- According to the Convergence Programme, UK real GDP is expected to grow by 1.1% in 2020 and by 1.8% in 2021. The macroeconomic scenario underlying the Convergence Programme does not take into account the impact of the COVID-19 crisis. According to the Commission forecast, real GDP is expected to fall by 8.3% in 2020. Based on the Commission's technical assumption of status quo in trading relations between the EU and the UK, GDP is forecast to grow by 6% in 2021.
- According to the Convergence Programme, the general government deficit is expected to increase from 2.2% of GDP in 2019-20 to 2.5% of GDP in 2020-21 and 3.1% of GDP in 2021-22. According to the Commission forecast, which includes the economic impact of the COVID-19 crisis and the fiscal measures that the UK government has announced to deal with it, the general government deficit is estimated to increase to 10.7% of GDP in 2020-21 before falling to 6.2% of GDP in 2021-22.
- The Commission forecast includes fiscal measures announced by the UK government to deal with the COVID-19 pandemic. The Commission estimates that these total around 5½% of GDP in 2020-21. The government has also announced loan guarantees of around 16% of GDP. The Convergence Programme does not include those measures.
- In both the Convergence Programme and the Commission forecast, the debt-to-GDP ratio is expected to remain well above 60% over the forecast period. According to the Convergence Programme, general government debt is expected to be 82.9% of GDP in 2020-21, and remain broadly stable over the forecast period. In the Commission forecast, debt is expected to increase to above 100% of GDP in 2020-21 and 2021-22.
- The macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic.

1. INTRODUCTION

Following the United Kingdom's withdrawal from the EU as of 1 February 2020 and the entry into force of the Withdrawal Agreement, the UK entered a transition period during which EU law, with a few exceptions, continues to apply to and in the UK[1]. This document assesses the economic and budgetary projections contained in the 2019-20 Convergence Programme of the UK covering the period 2019-20 to 2024-25 (hereafter called the Programme), which was submitted on 7 May 2020[2]. The note also assesses the UK's compliance with the preventive arm of the Stability and Growth Pact in 2019-20. The government approved the Programme and it was submitted to the national parliament for a debate without a vote. The Parliament was, however, required to approve the government's assessment of the UK's medium-term economic and budgetary position, which forms the basis of the Programme.

The UK is currently subject to the preventive arm of the Stability and Growth Pact. As the debt ratio was at 85.2% of GDP in 2016-17 (the year in which the UK corrected its excessive deficit), exceeding the 60% of GDP reference value, the UK was also subject to transitional arrangements as regards compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit (transitional debt rule). In this period, it should ensure sufficient progress towards compliance with the debt reduction benchmark. After this transition phase, as of 2020-21, the UK is expected to comply with the debt reduction benchmark.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit the activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows countries to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

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[1] The United Kingdom withdrew from the European Union as of 1 February 2020. The Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and European Atomic Energy Community (OJ L 29, 31.1.2020, p. 7) entered into force on the same date. It provides for a transition period during which Union law, with a few exceptions, is applicable to and in the United Kingdom. For the purposes of Union law applicable to it during the transition period, the United Kingdom is treated as an EU Member State, but will not participate in EU decision-making and decision-shaping.

[2] The programme was submitted after the deadline of 30 April established by the Regulation.

2. MACROECONOMIC DEVELOPMENTS

UK real GDP grew by 1.4% in 2019, up from 1.3% in 2018 and slightly higher than expected in the 2018-19 Convergence Programme (by 0.2 percentage points). For the duration of the transition period, trading relations between the EU and the UK remain unchanged. The transition period lasts until the end of 2020, with a possibility of an extension. Macroeconomic projections for 2021 in the Commission 2020 spring forecast (hereafter Commission forecast) are based on a purely technical assumption of status quo in terms of trading relations between the EU and the UK during the transition period. This is for forecasting purposes only and has no bearing on the negotiations between the EU and the UK on their future relations. The Programme projections are based on the assumption that the transition period continues until the end of 2020, and that afterwards the EU and the UK will move in an orderly fashion to a new trading arrangement, with the UK outside of the Single Market and the Customs Union.

Table 1: Comparison of macroeconomic developments and forecasts

	2019		2020		2021		2022	2023
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	1.4	1.4	-8.3	1.1	6.0	1.8	1.5	1.3
Private consumption (% change)	1.1	1.3	-10.3	1.1	6.9	1.2	1.2	1.4
Gross fixed capital formation (% change)	0.6	0.4	-14.3	-0.8	11.5	3.4	2.9	2.0
Exports of goods and services (% change)	4.8	3.7	-10.7	-0.6	5.1	-0.5	-0.6	-1.1
Imports of goods and services (% change)	4.6	3.6	-9.9	-0.2	6.1	0.4	0.2	0.2
Contributions to real GDP growth:								
- Final domestic demand	1.5	1.5	-8.2	1.3	6.4	1.9	1.7	1.6
- Change in inventories	0.2	0.0	0.0	-0.1	0.0	0.1	0.0	0.0
- Net exports	0.0	0.0	-0.1	-0.1	-0.4	-0.3	-0.2	-0.4
Output gap[1]	1.1	-0.5	-7.9	-1.7	-3.5	-1.6	-1.4	-1.2
Employment (% change)	1.1	1.1	-2.7	0.5	1.5	0.4	0.4	0.3
Unemployment rate (%)	3.8	3.8	6.8	3.8	6.0	3.8	3.9	3.9
Labour productivity (% change)	0.3	0.3	-5.8	0.5	4.4	1.4	1.1	1.0
HICP inflation (%)	1.8	1.8	1.2	1.4	2.1	1.8	2.1	2.1
GDP deflator (% change)	1.9	1.8	1.7	2.0	1.5	2.0	2.2	2.1
Comp. of employees (per head, % change)	3.8	3.6	-6.5	3.9	8.6	3.7	3.5	3.2
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-3.8	-3.1	-4.2	-3.9	-4.5	-4.0	-4.0	-4.1

Note:

[1] In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission 2020 spring forecast (COM); Convergence Programme (CP).

The macroeconomic scenario underlying the Programme does not take into account the impact of the COVID-19 crisis. UK real GDP is expected to grow by 1.1% in 2020 and by 1.8% in 2021. Private consumption is expected to be relatively subdued, while government consumption is expected to rise significantly in 2020. Business

investment is expected to be weak in 2020, before recovering in the following year. Net trade is expected to weigh on growth during the forecast period.

By contrast, the Commission forecast takes into consideration the impact of the COVID-19 outbreak. Accordingly, UK real GDP is expected to fall by 8.3% in 2020 and – based on the technical assumption described above – to grow by 6% in 2021. The lockdown measures that were implemented in late March to contain the spread of COVID-19 are expected to lead to a sharp fall in private consumption and investment. As the containment measures are eased, the economy should start to recover. Private consumption is expected to rebound quickly in the second half of the year, supported by an expansionary fiscal policy, while business investment is forecast to take longer to recover. Public consumption is expected to contribute significantly to GDP growth in 2020, while net exports are projected to weigh on growth.

The Programme is based on the macroeconomic forecast prepared by the independent Office for Budget Responsibility (OBR). As the macro scenario underlying the Programme does not take into account the impact of the COVID-19 crisis, it is no longer realistic. The Programme acknowledges that the forecast was closed at a stage when the "spread of COVID-19 was at a much earlier stage" and neither reflects the global spread of COVID-19 nor the outbreak in the UK.

3. Recent and planned budgetary developments

3.1. Deficit developments and Medium-term strategy and targets[3]

According to the Programme, the general government deficit is expected to have increased from 1.8% of GDP in 2018-19 to 2.2% of GDP in 2019-20. This is 0.8 percentage points higher than the deficit (1.4% of GDP) that was expected for 2019-20 in the 2018-19 Convergence Programme. However, this increase is largely due to methodological changes by the Office for National Statistics (applied to the whole time series of data), in particular on student loans, public sector pensions and depreciation. The Commission forecast expects the general government deficit to have been 2.5% in 2019-20. This difference is due to the fact that the Commission forecast includes the impact of the COVID-19 crisis, which negatively affected the economy and government finances in the first quarter of 2020.

In 2020-21, the general government deficit is expected to reach 2.5% of GDP, according to the Programme, followed by a further increase to 3.1% of GDP in 2021-22. The increase is due to planned increases in departmental spending. However, the Programme notes that the impact of COVID-19 and the government's response to it will lead to a higher deficit in 2020-21 than that set out in the Programme, without specifying a revised figure. It refers to the OBR's COVID-19 reference scenario, which expects the deficit to rise sharply in 2020-21, before falling back in 2021-22. According to the Commission forecast, the general government deficit is expected to reach 10.7% in 2020-21, and 6.2% in 2021-22. This is due to the expected economic

[3] In light of the activation of the general escape clause, the measures taken in response to the coronavirus outbreak in 2020 are not treated as one-off and are thus not excluded from the estimation of the structural budget balance.

downturn, which will negatively affect the government finances, including the impact of automatic stabilisers, as well as the fiscal measures adopted to deal with COVID-19. In the Commission forecast, the cost of the direct fiscal measures amounts to around 5½% of GDP in 2020-21.

The main goal of the Programme's medium-term budgetary strategy is to meet the following fiscal rules: i) to have the current budget at least in balance by the third year of the rolling five-year forecast period; ii) to ensure that public sector net investment does not exceed 3% of GDP on average over the rolling five-year period; and iii) if the debt interest to revenue ratio is forecast to remain over 6% for a sustained period, the government will take action to ensure the debt-to-GDP ratio is falling. The Programme notes that the fiscal framework will be reviewed by autumn 2020.

The budgetary forecasts in the Programme are projections under a no-policy-change assumption. In all years, the Commission forecast has a higher revenue ratio and a higher expenditure ratio than the Programme. This persistent gap is linked to differences in accounting treatment, and in 2020-21 and 2021-22 to the fact that only the Commission forecast reflects the Covid-19 crisis and the policy reaction to it.

Table 2: General government budgetary position

(% of GDP)	2019-20		2020-21		2021-22		2022-23	2023-24	Change 2019-20 to 2023-24
	COM	CP	COM	CP	COM	CP	CP	CP	CP
Revenue	**38.9**	**36.7**	**38.5**	**36.9**	**36.9**	**36.8**	**37.2**	**37.4**	**0.7**
of which:									
- Taxes on production and imports	13.0	13.0	12.3	12.9	12.1	13.0	13.1	13.0	**0.0**
- Current taxes on income, wealth, etc.	14.1	11.8	13.8	12.1	13.1	12.2	12.4	12.5	**0.7**
- Social contributions	8.0	6.5	8.2	6.5	7.8	6.6	6.6	6.6	**0.1**
- Other (residual)	3.8	5.4	4.1	5.4	3.9	5.0	5.1	5.3	**-0.1**
Expenditure	**41.4**	**38.9**	**49.2**	**39.3**	**43.1**	**39.9**	**39.8**	**39.8**	**0.9**
of which:									
- Primary expenditure	39.3	36.7	47.1	37.3	41.2	37.9	37.9	38.0	**1.3**
of which:									
Compensation of employees+Intermediate consumption	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	**n.a.**
Compensation of employees	9.1	n.a.	10.2	n.a.	9.7	n.a.	n.a.	n.a.	**n.a.**
Intermediate consumption	8.4	n.a.	9.9	n.a.	9.4	n.a.	n.a.	n.a.	**n.a.**
Social payments	14.9	10.7	16.9	10.6	16.0	10.5	10.5	10.5	**-0.2**
Subsidies	1.0	1.2	1.4	1.2	1.1	1.2	1.1	1.1	**-0.1**
Gross fixed capital formation	2.8	2.7	3.1	2.8	3.1	3.0	3.1	3.1	**0.4**
Other (residual)	3.1	3.0	5.6	3.2	2.0	3.3	3.2	3.1	**0.1**
- Interest expenditure	2.1	2.2	2.1	2.0	2.0	2.0	1.9	1.8	**-0.4**
General government balance (GGB)	**-2.5**	**-2.2**	**-10.7**	**-2.5**	**-6.2**	**-3.1**	**-2.6**	**-2.4**	**-0.2**
Primary balance	**-0.4**	**0.0**	**-8.6**	**-0.5**	**-4.3**	**-1.1**	**-0.6**	**-0.6**	**-0.6**
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
GGB excl. one-offs	**-2.5**	**-2.2**	**-10.7**	**-2.5**	**-6.2**	**-3.1**	**-2.6**	**-2.4**	**-0.2**
Output gap[1]	1.1	-0.5	-7.9	-1.7	-3.5	-1.6	-1.4	-1.2	**-0.7**
Cyclically-adjusted balance[1]	-1.8	-1.9	-6.7	-1.5	-4.3	-2.1	-1.8	-1.7	**0.2**
Structural balance[2]	**-1.8**	**-1.9**	**-6.7**	**-1.5**	**-4.3**	**-2.1**	**-1.8**	**-1.7**	**0.2**
Structural primary balance[2]	0.3	0.3	-4.6	0.5	-2.4	-0.1	0.1	0.1	**-0.2**
Gross debt ratio	**85.2**	**83.2**	**102.5**	**82.9**	**100.2**	**83.2**	**83.3**	**83.3**	**0.1**

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source :

Convergence Programme (CP); Commission 2020 spring forecasts (COM); Commission calculations.

3.2. MEASURES UNDERPINNING THE PROGRAMME

The Programme presents a detailed list of policy measures, both on the spending and revenue side. The most significant measures are set out in the table below. However, this table does not include measures taken in response to COVID-19, as the forecast was produced before these measures were announced. The Programme also does not include the two standard tables with COVID-19 measures, so is not in line with the guidelines for a streamlined Programme format.

The Programme presents plausible estimates of the budgetary impact of the measures which are included in it, based on the costings produced by the OBR. As such, there are limited differences between the Commission's estimates and those in the Programme. The Commission forecast also includes several measures announced by the UK government to deal with the consequences of COVID-19, including support for employees and self-employed workers, support for businesses

and an increase in welfare spending. Overall, the measures taken by the UK are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak.[4] The measures appear timely, temporary and targeted at cushioning the shock induced by COVID-19. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term.

These measures amount to about 5½% of GDP in 2020-21, according to Commission estimates. In addition, the UK government announced loan guarantees of about 16% of GDP, which do not have a direct fiscal cost but create contingent liabilities.

Table 3: Other main budgetary measures included in the Programme

2019-20
Revenue Personal tax allowance and higher rate threshold (-0.1% of GDP) **Expenditure** NHS: additional funding (0.4% of GDP) Public Service Pensions: update to discount rate (- 0.1% of GDP)
2020-21
Revenue National Insurance: Increase primary threshold, lower profit limit (-0.1% of GDP) Corporation tax: maintain at 19% (0.2% of GDP) **Expenditure** Higher departmental spending envelopes (0.5% of GDP) Higher capital spending (0.1% of GDP)
2021-22
Expenditure Higher departmental spending envelopes (0.7% of GDP) Higher capital spending (0.5% of GDP)
Note: The table refers to the main measures included in the 2019-20 Convergence Programme that have an incremental budgetary impact over the programme period. The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.

[4] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0112.

3.3. DEBT DEVELOPMENTS

According to the Programme, the government debt-to-GDP ratio is expected to have been 83.2% of GDP in 2019-20, and to remain broadly stable over the forecast horizon. According to the Commission forecast, the debt-to-GDP ratio is expected to have been 85.2% of GDP in 2019-20, and to increase above 100% in 2020-21 and 2021-22. This reflects substantially worse macroeconomic and fiscal projections in the Commission forecast as the result of taking the spread of COVID-19 into account.

Table 4: Debt developments

	2018	2019	2019	2020	2020	2021	2021	2022	2023
(% of GDP)	Average 2014-15 to 2018-19	2019-20		2020-21		2021-22		2022-23	2023-24
		COM	CP	COM	CP	COM	CP	CP	CP
Gross debt ratio[1]	**85.0**	**85.2**	**83.2**	**102.5**	**82.9**	**100.2**	**83.2**	**83.3**	**83.3**
Change in the ratio	0.0	1.1	1.1	17.2	-2.3	-2.3	0.3	0.1	0.0
Contributions[2]:									
1. Primary balance	**-0.5**	**0.4**	**0.0**	**8.6**	**0.5**	**4.3**	**1.1**	**0.6**	**0.6**
2. "Snow-ball" effect	**-0.6**	**0.1**	**0.1**	**8.5**	**-0.5**	**-6.4**	**-1.0**	**-0.9**	**-0.9**
Of which:									
Interest expenditure	2.3	2.1	2.2	2.1	2.0	2.0	n.a.	1.9	1.8
Growth effect	-1.6	-0.5	-0.5	7.9	-0.9	-6.9	-1.4	-1.2	-1.0
Inflation effect	-1.4	-1.6	-1.6	-1.5	-1.6	-1.5	-1.6	-1.7	-1.7
3. Stock-flow adjustment	**-0.3**	**0.6**	**0.6**	**0.0**	**-2.3**	**0.0**	**0.2**	**0.5**	**0.3**
Of which:									
Cash/accruals diff.									
Acc. financial assets									
Privatisation									
Val. effect & residual									

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Commission 2020 spring forecast (COM); Convergence Programme (CP), Commission calculations.

3.4. RISK ASSESSMENT

The macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic. The pandemic could become more severe and last longer than assumed, requiring more stringent and longer lasting containment measures. This would result in worse economic and fiscal outcomes. It could also require further fiscal policy measures. That would result in worse fiscal outcomes but help to mitigate the economic impact.

As mentioned above, the forecasts in the Programme do not include the effects of the global spread of COVID-19 or the outbreak in the UK, or the UK government's policy response to it. This creates a large downside risk to its projections. In addition to the fiscal measures directly affecting the government's balance sheet, the government has also provided loan guarantees of about 16% of GDP, thus an additional risk

stems from the considerable size of public guarantees issued in response to the crisis.

Uncertainty over future EU-UK trade relations is a clear downside risk, particularly to the Commission forecast, which is based on a purely technical assumption of status quo in EU-UK trading relations in 2021.

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

4.1. Compliance with the deficit criterion

According to the Commission forecast, the UK's general government deficit is expected to reach 10.7% of GDP in 2020-21, thereby exceeding the Treaty reference value of 3% of GDP. This provides prima facie evidence of the risk of an excessive deficit in the UK for the purposes of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3) TFEU, which analyses the UK's compliance with the deficit criterion of the Treaty. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

4.2. Compliance with the debt criterion

The general government debt ratio of the UK is expected to remain above 60% of GDP across the forecast periods of both the Programme and the Commission 2020 spring forecast. Following the abrogation of the excessive deficit procedure in 2016-17, the UK was subject to the Minimum Linear Structural Adjustment during the three-year transition phase, until 2019-20. In 2020-21 and 2021-22, the UK is subject to the debt reduction benchmark.

According to the Programme and the Commission forecast the government debt to GDP ratio is expected to have breached the reference value of 60% in 2019-20 and is not sufficiently diminishing and approaching the reference value at a satisfactory pace. The change in the structural balance in 2019-20 of 0.6% of GDP is not compliant with the MLSA requirement of 3.2% of GDP, indicating a gap of 2.6% of GDP. This provides evidence that there appears to be prima facie a risk of an excessive deficit in the UK in the sense of the Treaty and the Stability and Growth Pact. However, final outturn data on the 2019-20 general government deficit and debt will only be available in autumn 2020.

4.3. Compliance with the MTO or the required adjustment path towards the MTO in 2019-20[5]

The UK became subject to the preventive arm of the Stability and Growth Pact in 2017-18. In 2019-20, the UK was required to have a nominal growth rate of net primary expenditure which did not exceed 1.6%, corresponding to an annual structural adjustment of 0.6% of GDP.

In 2019-20, the expenditure benchmark points to a risk of significant deviation from the recommended adjustment, while the structural pillar points to compliance. Over 2018-19 and 2019-20 taken together, the expenditure benchmark also points to a risk of significant deviation and the structural pillar to compliance. Over both one and two years, the structural pillar is positively impacted by lower estimated interest payments on index-linked gilts, as well as estimated revenue windfalls, indicating that the expenditure benchmark more accurately reflects the fiscal effort. Overall, the assessment therefore points to a risk of significant deviation from the requirements of the preventive arm in 2019-20.

Based on the outturn data and the Commission forecast, the assessment suggests the risk of a significant deviation from the adjustment path towards the MTO in 2019-20. However, final outturn data will only be available in autumn 2020.

[5] The possible retroactive impact on output gap estimates as a result of the recession induced by the COVID-19 outbreak and the possibility of abnormal responses of government revenues to major swings in economic activity underline that compared to the structural balance the expenditure benchmark is likely to provide a more reliable and predictable indicator in times of severe economic downturn.

Table 5: Compliance with the requirements under the preventive arm

	(% of GDP)	2019-20	2020-21		2020-21	
	Background budgetary indicators[1]					
(1)	Medium-term objective (MTO)	-0.8	-0.5		-0.5	
(2)	Structural balance[2] (COM)	-1.8	-6.7		-4.3	
	Setting the required adjustment to the MTO					
(3)	Structural balance based on freezing (COM)	-1.7	-7.5		-	
(4) = (1) - (3)	Position vis-a -vis the MTO[3]	Not at MTO	Not at MTO		Not at MTO	
(5)	Required adjustment[4]	0.6	0.6		0.3	
(6)	Required adjustment corrected[5]	0.6	0.6		0.3	
(8)	Corresponding expenditure benchmark[6]	1.6	1.9		2.4	
	Compliance with the required adjustment to the MTO					
		COM	**COM**	**CP**	**COM**	**CP**
	Structural balance pillar					
(8) = Δ (2)	Change in structural balance[7]	0.6				
(9) = (8) - (6)	*One-year deviation from the required adjustment*[8]	0.0				
	Two-year average deviation from the required adjustment[8]	0.2				
	Expenditure benchmark pillar					
(10)	Net public expenditure annual growth corrected for one-offs[9]	4.5				
(11) = (10) - (8)	One-year deviation adjusted for one-offs[10]	-1.1				
	Two-year deviation adjusted for one-offs[10]	-0.7				
	Finding of the overall assessment	**significant deviation**				
	Compliance with the debt criterion					
	Transition period					
	Required structural adjustment (MLSA)[11]	3.2				
	Structural adjustment[12]		-4.9	0.4	2.4	-0.6
	After transition period					
	Gap to the debt benchmark [13,14]		5.5	-1.5	1.0	-1.3

Legend

'*Compliance*' - the recommended structural adjustment or a higher adjustment is being observed.

'*Some deviation*' - a deviation from the recommended structural adjustment is being observed, but it is below the threshold for a significant deviation.

'*Significant deviation*' - a deviation which has reached or breached the threshold for a significant deviation (i.e. 0.5% of GDP over one year, 0.25% of GDP over two years on average).

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[7] Change in the structural balance compared to year t-1. Ex post assessment (for 20XX-1) is carried out on the basis of Commission 20XX spring forecast.

[8] The difference of the change in the structural balance and the corrected required adjustment.

[9] Net public expenditure annual growth (in %) corrected for discretionary revenue measures, revenue measures mandated by law and one-offs (nominal)

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

[11] Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (S/CP) budgetary projections for the previous years are achieved.

[12] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[13] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[14] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

Source:

Convergence Programme (CP); Commission 2020 spring forecast (COM); Commission calculations.