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The 2018 Stability & Convergence Programmes

An Overview and Implications
for the Euro Area Fiscal Stance

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European Commission
Directorate-General for Economic and Financial Affairs

The 2018 Stability & Convergence Programmes

An Overview and Implications for the Euro Area Fiscal Stance

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EXECUTIVE SUMMARY

This note provides an overview of the 2018 Stability and Convergence Programmes submitted by Member States. It takes a glance at budgetary developments in 2017 and sets out the fiscal plans over 2018-2021, both at country level and the euro area and European Union (EU) as a whole. It also presents an analysis of the recent and prospective fiscal stance in the euro area.

The situation of public finances in the EU and the euro area appears favourable. In aggregated terms, public deficits decreased by around half a percentage point of GDP in 2017, to 1.0% of GDP (0.9% in the euro area), compared to a peak of 6.6% of GDP in 2009. The euro area and EU thus posted much lower deficits than the US (at 4.9% of GDP) or Japan (at 3.8% of GDP). The 2017 outcome is significantly better than expected in the 2017 programmes.

The continuing reduction of public deficits in 2017 is largely attributable to the improvement of cyclical conditions and lower interest rates. Compared with the 2017 programmes, the headline balance improved in 2017 on the back of positive growth surprises as well as a larger-than-planned structural adjustment. On aggregate, the structural deficit was reduced by around 0.3 percentage point of GDP in 2017, both for the euro area and in the EU, partly due to lower interest expenditure. The discretionary fiscal effort, which is conceptually close to the expenditure benchmark of the Stability and Growth Pact (excluding changes in interest expenditure) and measures the actual fiscal effort delivered by governments, is estimated to have been broadly neutral in 2017 on aggregate, at -0.1% of GDP.

At the same time, the picture varies significantly across Member States. On the one hand, a majority of Member States posted an increase in their structural balance. On the other hand, a number of Member States saw a non-negligible deterioration of their structural positions: Romania and Hungary (by around 1¼ percentage point of GDP), Latvia and Estonia (by more than ¾ percentage point), and, to a lesser extent, Italy, Lithuania and the Netherlands (by around ¼ percentage point). Likewise, the discretionary fiscal effort differs substantially across Member States.

Looking forward, the aggregate headline balance is planned to improve further to a small surplus of 0.2% of GDP by 2021. The surplus would amount to 0.5% in the euro area.

Risks to the 2018 headline targets seem limited. Indeed, the Commission forecast is even slightly more favourable than the 2018 Stability and Convergence Programmes. In turn, Member States fiscal plans are significantly more favourable than the Commission forecast for 2019, mostly due to different assumptions regarding the future budgetary measures. Beyond 2018, the revenue projections seem all in all prudent, while on the expenditure side some Member States continue to count on further interest windfalls.

Respecting Member States programmes would result in a slight increase in the aggregate structural deficit in 2018 in the EU. Likewise, the discretionary fiscal effort planned by Member States is negative (expansionary) in 2018, followed by a slightly (contractionary) positive fiscal effort as of 2019.

All Member States plan to move in the direction of or remain at their Medium Term Objectives (MTO) by the end of the Programmes, in 2021, but often thanks to a fairly back-loaded fiscal effort. Indeed, the slight loosening of 2018 will be followed by a planned fiscal tightening of around 0.3 percentage point per year in 2019-2021. Member States that are not yet at their MTO plan some structural adjustment over the SCP horizon, but for some of them the effort is back-loaded, with several Member States planning a structural deterioration or a very limited improvement in 2018. Of the 13 Member States that have already reached their MTO, eight plan a fiscal expansion over the programme horizon but they would all remain at or above their MTO. By 2021, 18 Member States plan to have reached the MTO, while another four expect to be in its vicinity (within 0.25% of GDP distance). All in all, the structural improvement planned by Member States is generally positively correlated to Member States' current debt positions, but most Member States with the highest debt levels plan a smaller adjustment than suggested by the S1 indicator of fiscal sustainability risk.

The debt-to-GDP ratio continued to decrease in 2017. It stands at around 82% in the EU and 87% in the euro area (excl. Greece), compared to a peak in 2014 of over 88% of GDP and 94% of GDP respectively. This is significantly lower than the public debt of the US, at around 108% of GDP in 2017, and Japan, at 236% of GDP.

All Member States plan a further decline in their public debt, resulting in a drop in aggregate debt by 2021 to 74% of GDP in the EU and to 78% by 2021 in the euro area. The decline would be mostly driven by primary surpluses and to a lesser extent by a favourable growth-interest differential.

Over the medium term, fiscal sustainability risks would remain elevated in a number of Member States. 'High' sustainability risks were identified in seven countries, and 'medium' sustainability risks were assessed in another five countries based on the Commission's debt sustainability analysis. Medium-term debt projections show that if the fiscal plans of the programmes were fully implemented, additional fiscal consolidation measures totalling close to 0.3 percentage point of GDP in the EU (close to 0.7 percentage point in the euro area) would be needed over the next five years to bring the debt-to-GDP ratio to 60% by 2032. However, in a number of Member States the needed additional measures would be much more significant.

The euro area fiscal stance was on average broadly neutral over 2015-2017. This followed a considerable fiscal retrenchment over the period 2011-2014.

Looking ahead, the fiscal stance is projected to remain broadly neutral also in 2018 and to turn slightly expansionary in 2019 according to the Commission 2018 spring forecast. This is measured by the change in structural balance and calculated under the assumption of unchanged policies for 2019. These developments reflect somewhat larger growth in primary spending than medium-term potential growth.

Consistent with the proposed 2018 Country-Specific Recommendations, an appropriate differentiation of national fiscal policies would lead to a broadly neutral fiscal stance for the euro area in 2019. On the one hand, as the removal of monetary accommodation by the European Central Bank is likely to be gradual, the current economic expansion points to the need to reduce excessive levels of debt in many Member States and re-build fiscal buffers to be able to tackle possible future shocks. This notably concerns some large euro area Member States that face sustainability challenges due to their excessive levels of public debt or implicit liability related to population ageing. On the other hand, the existing fiscal scope in some other Member States could be mobilised to invest in long-term growth. Additional public investment could not only enhance their own future growth prospects in the longer run, but also further support the economic growth of the whole euro area, while contributing to adjust current account surpluses.

INTRODUCTION

This note provides an overview of the 2018 Stability and Convergence Programmes (SCPs) submitted by EU Member States.⁽¹⁾ The note aims at offering a cross-country aggregated view of fiscal policy plans in the European Union and the euro area as a whole.⁽²⁾ It also includes an assessment of the fiscal stance and policy mix in the euro area.

In its 2018 Annual Growth Survey (AGS) the Commission highlighted that it is time to take action to prevent higher debt financing costs in the future and to build up fiscal buffers to help our economies to be more resilient to shocks and to create space for increased investment. The AGS also stated that fiscal policy needs to be tailored to country-specific circumstances. In Member States with sustainability risks, the gradual consolidation in line with EU fiscal rules should aim for a fiscal stance that both strengthens the ongoing recovery and ensures the sustainability of public finances. Particular attention needs to be paid to the composition of both expenditure and revenue. Member States with fiscal space could make use of it to lift potential growth and domestic demand, notably through investment. The AGS also confirmed that a broadly neutral fiscal stance would be appropriate for the euro area as a whole in 2018. The economic situation is expected to improve further, therefore strengthening the case for the reduction of public debt and rebuilding fiscal buffers, especially in highly indebted countries. However, in order to strengthen the growth potential of the euro area economies, public investment should be safeguarded and even increased in some Member States.

On 23 January 2018, the Council recommended that in the period 2018-2019, euro area Member States deliver the planned, broadly neutral overall fiscal stance for the Euro Area, contributing to a balanced policy mix.⁽³⁾ Furthermore, Euro area Member States are recommended to *strike an appropriate balance between ensuring the sustainability of public finances, in particular where debt ratios are high, and supporting the economy, in full respect of the Stability and Growth Pact and taking into account fiscal space and spillovers across Member States.* It is further recommended to *use the improving economic conditions to rebuild fiscal buffers, while continuing to strengthen economic growth potential.* This horizontal recommendation feeds into the Country-Specific Recommendations. In the context of the European Semester, the Council recommendations, both horizontal and country-specific, are expected to guide the national budgets for 2019. For this reason, plans for 2019 are given primary attention in the present note.

This note consists of four sections. Section 1 examines the implementation of SCPs in 2017. Section 2 presents the budgetary plans set out by Member States in their SCPs over the period 2018 to 2021. It also analyses and assesses the overall fiscal stance in the euro area. Section 3 contains an analysis of the risks to the budgetary trajectories contained in the SCPs. It focuses on risks to projections of macroeconomic variables and related revenue targets, as well as interest rate risks. Section 4 looks at the longer-term implications of the plans for fiscal sustainability, by taking into account the projected changes in age-related expenditure. Finally, an annex provides tables with data from both the SCPs and the Commission 2018 spring forecast.

⁽¹⁾ The analysis is built around data reported by Member States in their 2018 Stability and Convergence Programmes, unless otherwise specified. Greece is not part of this analysis because Member States under an ESM stability support programme are not required to submit a Stability Programme. Therefore, aggregate figures for the EU and euro area do not include EL, unless specified differently. The data for the UK correspond to fiscal years and, when relevant, other (Commission) data for the UK are adjusted to be comparable. IT and SI have submitted a Stability Programme which only contains projections at unchanged policy.

⁽²⁾ The overview of the 2017 vintage of the SCPs is available at: https://ec.europa.eu/info/publications/economy-finance/overview-2017-stability-and-convergence-programmes-and-assessment-euro-area-fiscal-stance-2018_en

⁽³⁾ Formally adopted by the General Affairs Council of 14 May 2018. See [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32018H0525\(01\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32018H0525(01))

Box 0.1: The fiscal stance: clarifications

Usually, the fiscal stance refers to the orientation of fiscal policy, which can be qualified as expansionary, restrictive or neutral. A neutral fiscal policy, in the perspective of this note, is one where government discretionary decisions, essentially the growth of spending and the new tax measures, neither support nor drag on the private economy compared with a steady state path. ⁽¹⁾

Beyond this simple canvas, there are a number of further points to consider when assessing the macroeconomic impact of fiscal policy. First, the considerations focus here solely on the short-run effects of fiscal policy on aggregate demand, leaving aside other important concerns such as medium-term supply side effects. Second, the demand impact of fiscal developments reflects not only the discretionary part of fiscal policy, but also the effects of the automatic stabilisers. Third, these effects on the economy depend on the values of fiscal multipliers, which may depend on many factors. Therefore, a given fiscal stance will not always exert the exact same traction on output, given variations in circumstances and composition. Finally, the effect of fiscal policy in a given year combines the immediate effect of current policy with the incremental lagged effect of prior policies.

Commonly used indicators for the fiscal stance are the change in the structural balance ⁽²⁾ and change in the structural primary balance (for which interest payments are removed). As the change in the structural balance captures the broad economic effects of fiscal policy, it has played a central role in the European fiscal framework since the 2005 reform of the Stability and Growth Pact.

The discretionary fiscal effort (DFE) is also used in this note as capturing the effective fiscal efforts made by governments. Indeed, the structural balance can be distorted by non-policy effects (i.e. outside the control of the governments). In particular, the structural balance can be distorted by swings in fiscal elasticities (i.e. tax windfalls or shortfalls), since it assumes constant (average) elasticities. In addition, estimates of the structural balance have been revised repeatedly in recent years, reflecting the difficulty of real time measurement of the output gap. In a nutshell, the DFE consists of the increase in primary expenditure relative to potential growth, net of cyclical expenditures on the one hand, and of discretionary revenue measures on the other hand. ⁽³⁾ It is not exposed to short-term changes in revenue or spending elasticities, therefore largely avoiding the endogeneity problem which biases the structural balance. At the same time, it relies on a smoother and more stable notion of potential growth than the structural balance. Nevertheless, the DFE can also be distorted by some non-policy effects. A particular challenge is to quantify and classify a fiscal measure. In addition, it heavily relies on governments' own estimates of the budgetary impact of measures on the revenue side, which are hard to verify.

In the past years, the different measures of the fiscal stance convey very similar messages (see graph I.6). According to the Commission 2018 spring forecast, the indicators point on average to sizeable fiscal consolidation effects over 2011-2014, a broadly neutral fiscal stance over 2015-2018 and a slight fiscal expansion in 2019, based on a no-policy change assumption. ⁽⁴⁾ Despite these similarities, sizeable

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

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

⁽³⁾ The DFE combines a top-down approach on the expenditure side with a bottom-up or narrative approach on the revenue side. See European Commission (2013): Measuring the fiscal effort, Report on Public Finances in EMU, part 3 http://ec.europa.eu/economy_finance/publications/european_economy/2013/pdf/ee-2013-4.pdf

⁽⁴⁾ Typically the range between +/-0.2 has been used to characterise the fiscal effort as "broadly neutral". See European Commission (2016): The 2016 Stability and Convergence Programmes: An Overview and Implications for the Euro Area Fiscal Stance, p. 52.

(Continued on the next page)

Box (continued)

differences between indicators can occur (see for instance the difference between the change in the structural balance and the DFE for 2017), and notably at country level. ⁽⁵⁾

⁽⁵⁾ See European Commission (2017): An Overview of the 2017 Stability and Convergence Programmes and an Assessment of the Euro Area Fiscal Stance for 2018, Institutional Paper 59, July.

1. 2017 AT A GLANCE: BUDGETARY DEVELOPMENTS

Overall budgetary developments in 2017

In aggregated terms, public deficits decreased by around half a point of GDP in 2017 mainly as a result of improved economic conditions as well as some structural adjustment. The aggregate headline deficit fell from 1.6% of GDP in 2016 to 1.0% of GDP in 2017 in the EU, and from 1.5% to 0.9% of GDP in the euro area.⁽⁴⁾ As shown in Graph 1.1, the improvement in the business cycle had a deficit-decreasing impact of around 0.4 pps. of GDP.

The structural budgetary adjustment was more modest than the improvement of the headline balance. The aggregate structural balance improved by 0.3% of GDP in 2017, both for the euro area and in the EU. The discretionary fiscal effort (DFE), which is conceptually close to the expenditure benchmark of the Stability and Growth Pact, is estimated at -0.1% of GDP in 2017, i.e. broadly neutral. The difference between the two indicators of fiscal effort is partly explained by lower interest expenditure (-0.1% of GDP in the EU, -0.2% of GDP for the EA) which improves the structural balance but are not included in the DFE. Also the different measures of potential growth rate underlying both indicators result in a 0.2% of GDP difference in favour of the structural balance outcome. Lastly, the increase in EU-funded expenditure (+0.05% of GDP in the EU and the EA) is neutral for the structural balance but has a negative impact on the DFE.⁽⁵⁾ A detailed discussion on the fiscal stance in 2017 can be found at the end of this section.

Headline balances improved in the large majority of Member States compared to 2016 (Graph 1.1). A significant deterioration of the headline balance was only observed in LV and HU (in both Member States due to a sizeable negative fiscal effort) and PT (due to a 2.0% of GDP one-off impact of a bank recapitalisation). Almost all Member States (except IE, LU and SE) benefitted from improving cyclical conditions as measured by the change in the output gap. A decline in interest expenditure also contributed positively in all Member States (except in the UK).

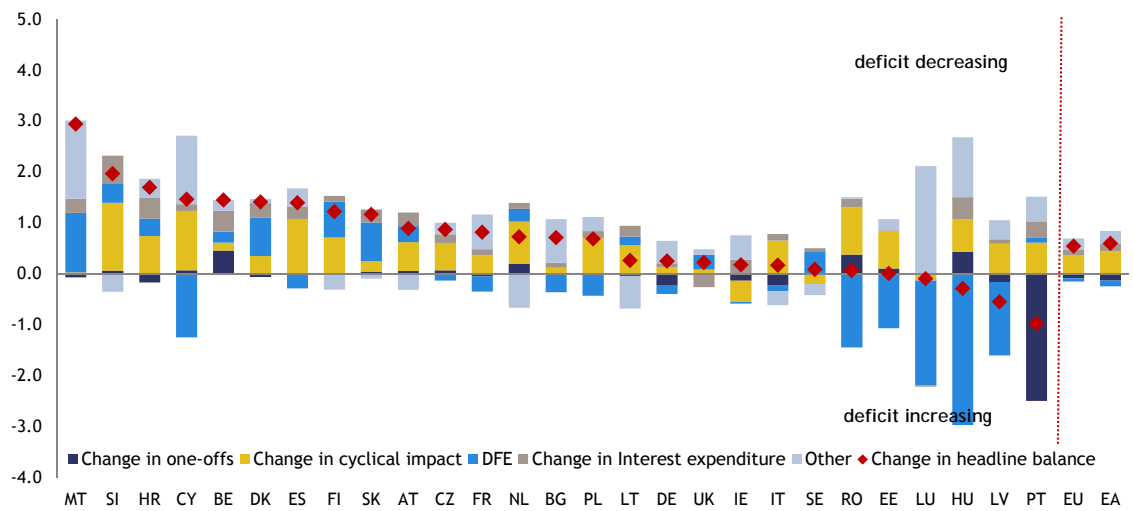
The size and direction of the fiscal effort differs considerably across Member States (Graph 1.2). Most Member States posted an increase in their structural balance, with the exceptions being RO (-1.2% of GDP), HU (-1.4% of GDP), LV (-1.0% of GDP), EE (-0.8% of GDP), and to a lesser extent also IT, LT and NL (all -0.3% of GDP). However, the DFE shows a more mixed picture. Adjusted for fluctuations in EU-funded expenditure, the DFE was especially positive, i.e. contractionary, in ten Member States (UK, MT, FI, SE, SK, LT, DK, NL, SI and AT). By contrast, seven countries recorded a very negative, i.e. expansionary, DFE (LU, RO, HU, CY, LV, BG and IE). For the other Member States, the DFE was broadly neutral, lying between -0.25% of GDP and 0.25 % of GDP. This heterogeneity was also reflected in revenue returns, with sizeable shortfalls occurring in EE, IE, LT, NL, AT, SI, FI and SE, while CY, LU, MT and HU recorded substantial revenue windfalls.⁽⁶⁾

⁽⁴⁾ Aggregate figures for the EU and the euro area in the entire note do not include EL, unless specified differently. Greece is not part of this analysis because Member States under an ESM stability support programme are not required to submit a Stability Programme.

⁽⁵⁾ In the headline balance and the structural balance, EU funds related expenditure is to largely offset by corresponding EU revenue. In the DFE, EU funds related expenditure is not netted out, contrary to the treatment in the structural balance (where it is offset by corresponding revenue) and the expenditure benchmark (where it is excluded from the expenditure aggregate). The DFE thus may appear better suited to capture the fiscal impulse at country level, while the structural balance and the expenditure benchmark may appear better suited for budgetary surveillance. In Graph 1.1, fluctuations in EU funds related revenue are mostly reflected in the 'other' term.

⁽⁶⁾ Compared to revenue developments that would have been expected based on standard elasticities and the Commission's assessment of discretionary revenue measures.

Graph 1.1: Drivers for the change in the headline balance in EU Member States in 2017 (pps. of GDP)

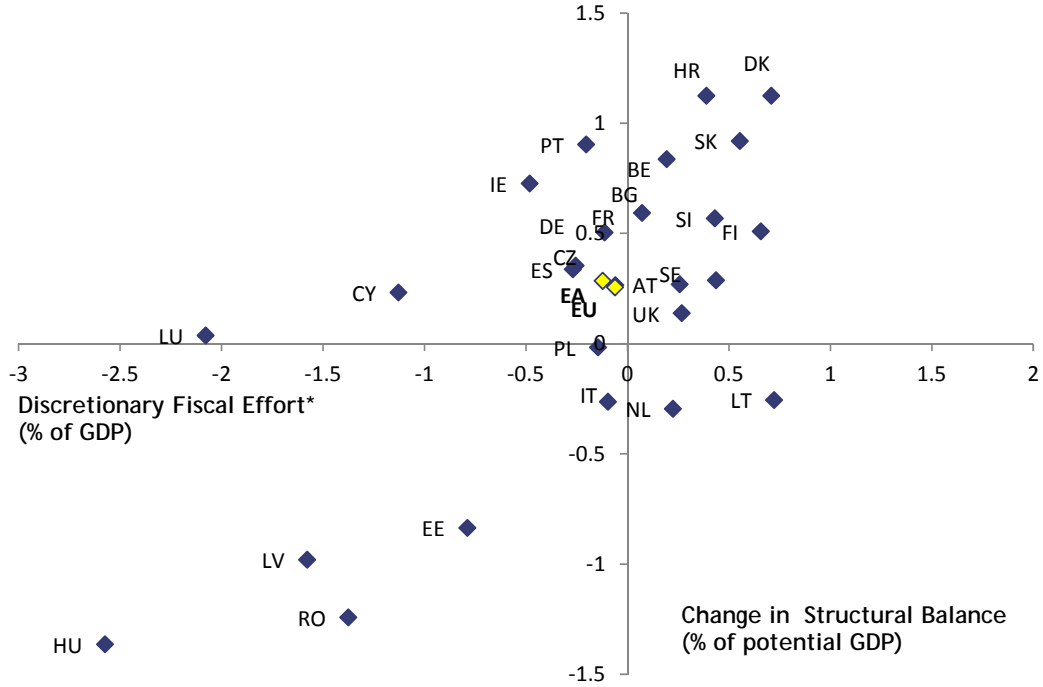


Note: A positive (negative) value means contributing to an improvement (deterioration) of the headline balance. The other category is defined as a residual and includes revenue windfalls(+) or shortfalls (-) compared to standard elasticities, changes in EU funds-related revenues and a technical term due to different assessments of cyclical unemployment and potential growth between the discretionary fiscal effort (DFE) and the cyclical impact. The DFE might be impacted by large fluctuations in EU funded expenditure. This is in particular the case in CY, EE, LT, MT, PT, SI, SK, BG, HU and PL. This is offset by a similar change in received EU transfers, which is included in the residual ('other').

Source: European Commission 2018 spring forecast.

Debt-to-GDP ratio continued to decrease in 2017, standing at around 82% and 87% in the EU and the euro area respectively. Public debt peaked in 2014 around 88% of GDP in the EU and 94% in the euro area, and declined steadily over 2015-2016. In 2017, it decreased by 2.1 pps. of GDP in the EU and 2.3 pps. in the euro area, driven by primary surpluses and a favourable growth-interest differential, meaning that growth exceeded the implicit average cost of the outstanding debt (Graph 1.3). Most Member States now have a primary surplus, which contributes to debt reduction, with the exceptions of FR, ES, RO and EE (the latter having a very low debt). The growth-interest differential (the so-called snowball effect) has turned positive (debt-reducing) in all Member States but IT. Stock-flow adjustments were neutral in aggregate terms, but had a substantial upward effect on public debt in LU, LT, LV and MT while having a sizeable downward impact in CY, AT, PT and PL. All in all, debt ratios decreased in all Member States except in FR and LU (where public debt remains low).

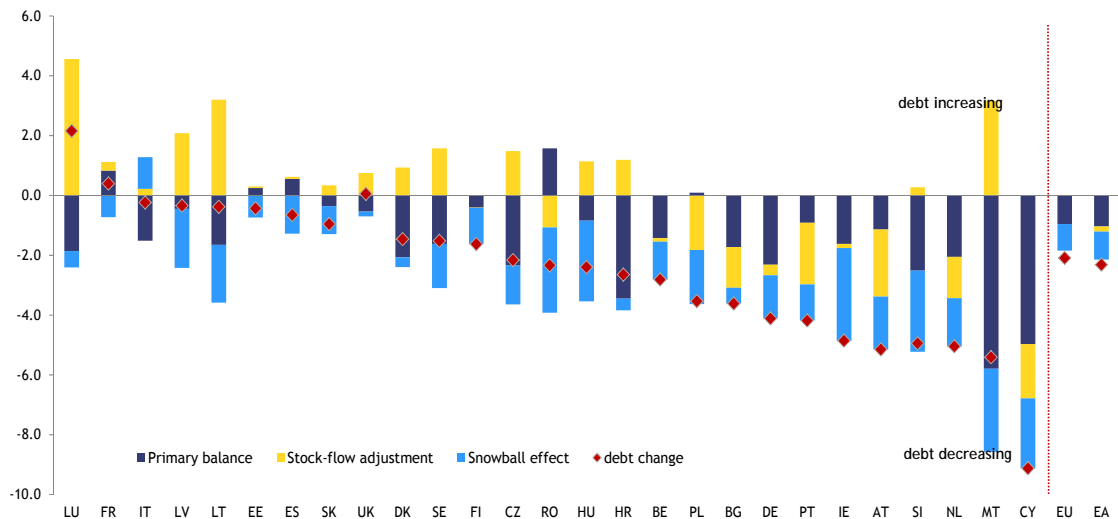
Graph 1.2: Discretionary fiscal effort and change in the structural balance in 2017 (pps. of GDP)



Note: *The discretionary fiscal effort has been corrected for fluctuations in EU funded expenditure, which are neutral for the structural balance as they are offset by transfers from the EU at the revenue side. MT falls outside the graph as the change in the structural balance amounted to 3.0% of GDP in 2017.

Source: European Commission 2018 spring forecast.

Graph 1.3: Contributions to the change in the debt-to-GDP ratio in 2017 (pps. of GDP)

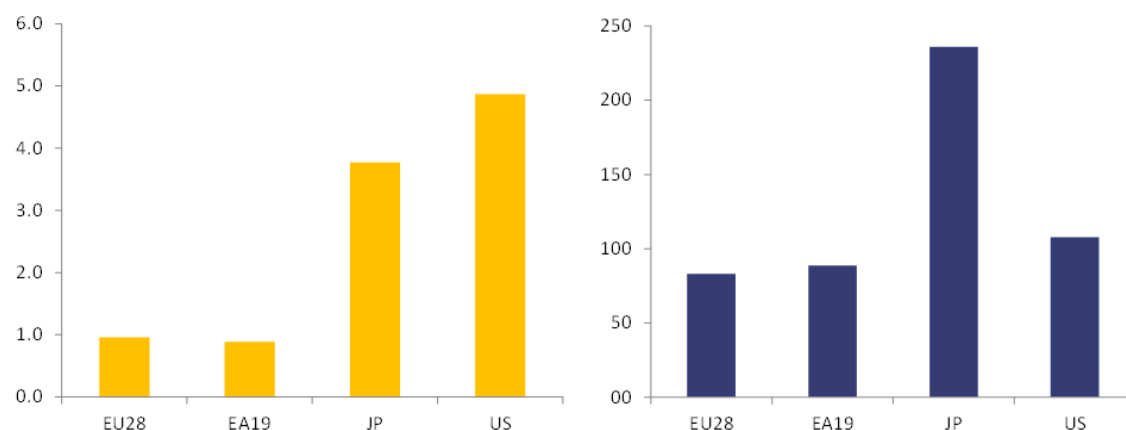


Note: The graph disaggregates the changes to Member States' debt-to-GDP ratios in 2017 between the contributions of the primary balance, stock-flow adjustments and the snowball effect, the latter of which refers to the interest rate-growth rate differential. Negative (positive) values indicate that the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

Source: European Commission 2018 spring forecast.

On aggregate, deficit and debt levels are smaller in the EU than in the US and Japan. Overall, the EU and the euro area posted much lower deficits than the US, at 4.9% of GDP, or Japan, at 3.8% of GDP (Graph 1.4). While debt levels decreased in the EU and the euro area, debt-to-GDP ratio stabilised at high levels in Japan and the US, at 108% of GDP and 236% of GDP respectively.

Graph 1.4: Deficit (left-hand panel) and debt levels (right-hand panel) of EU, euro area, Japan and US in 2017 (% of GDP)



Note: For the purpose of this graph, aggregate figures for the EU and euro area include EL.
 Source: European Commission 2018 spring forecast.

Comparison of the 2017 outturn with the 2017 Stability and Convergence Programmes

Compared to the 2017 SCPs, headline balances turned out better than expected both in the euro area and the EU, by 0.3 pp. of GDP and 0.4 pp. of GDP respectively. A similar observation had been made for the 2016 outturn. The better-than-expected result stems first of all from a higher-than-planned structural improvement, at 0.3 pp. of GDP instead of a stable structural deficit in the plans. Secondly, better cyclical conditions improved the budget balance by 0.2 pp of GDP more than expected in both the euro area and the EU. One-offs on the other hand turned out slightly more negative than expected (-0.1% of GDP in the euro area and EU). However, the apparent structural improvement was partly driven by interest payment savings. Table 1.1 shows the positive growth surprise, while inflation turned out broadly as expected.

Table 1.1: Economic conditions in the EU and the euro area in 2017

		2017 SCPs planned	COM 2018 spring forecast
EU	Real GDP growth	1.9	2.4
Euro area		1.7	2.4
EU	Nominal GDP growth	3.4	3.9
Euro area		3.0	3.5
EU	Inflation (GDP deflator)	1.4	1.4
Euro area		1.3	1.1
EU	Output gap	-0.2	-0.1
Euro area		-0.5	-0.3
EU	Change in output gap	0.3	0.7
Euro area		0.4	0.9

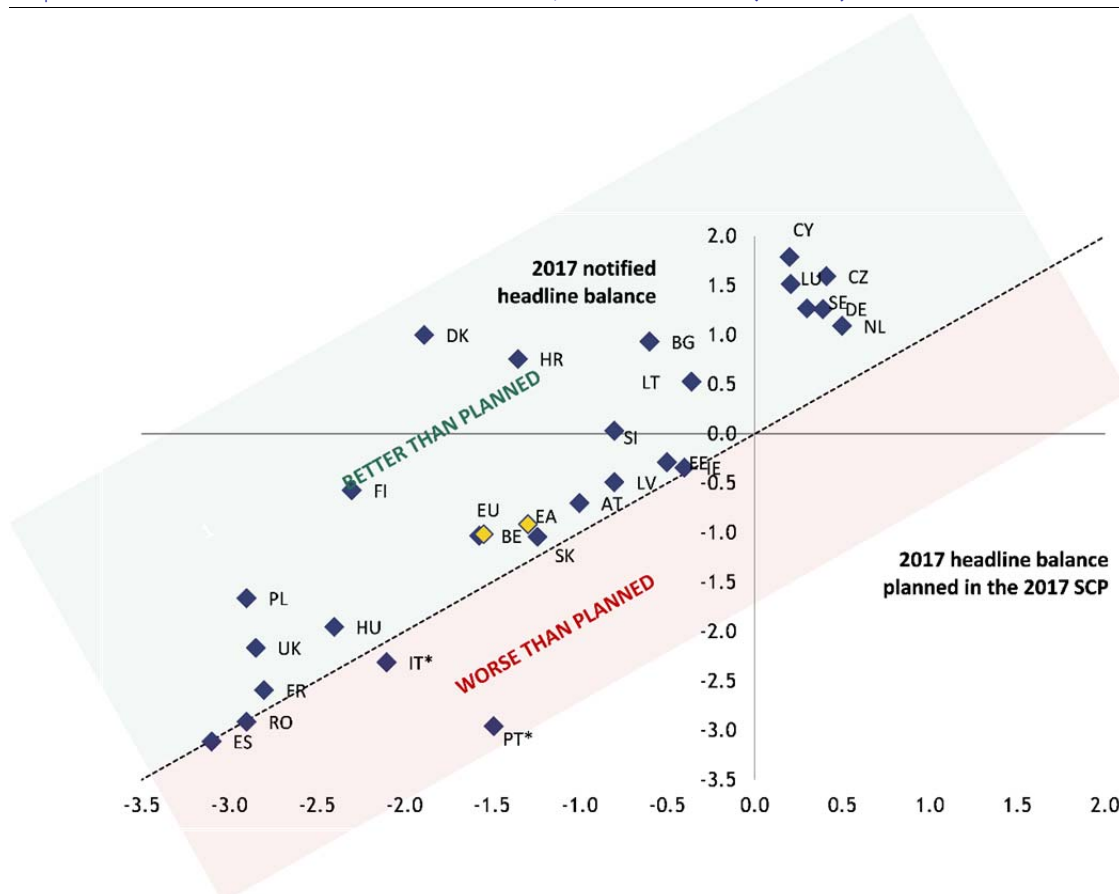
Note: Aggregate figures for the EU and euro area do not include EL.

Source: European Commission 2018 spring forecast and 2017 SCPs.

All Member States except Portugal and Italy reached or over-performed the 2017 headline balance target set in their 2017 stability programme (Graph 1.5). In most Member States (except in IE, IT, LV), the impact of the cycle on the budget outcome is now more positive or less negative than assumed in last year's SCP. The structural improvement was also bigger than planned in most Member States (except in BE, EE, ES, HU and RO). In a few Member States, one-offs had a more positive or less negative impact than planned (in the case of DK, BE, HU, SE and SI).⁽⁷⁾ In contrast, in the case of PT and IT, one-off support measures to the banking sector of respectively 2.0% of GDP and 0.3% of GDP, explain that the headline target of the 2017 SCP have not been reached.

⁽⁷⁾ However, this might also be due to a different definition of one-offs in the Commission assessment compared to the definition used by national authorities in their programmes.

Graph 1.5: Headline balance in EU Member States in 2017, outturn vs 2017 SCPs (% of GDP)



Notes: The graph plots the notified 2017 headline budget balances (vertical axis) against the planned headline budget balance (horizontal axis). Member States above (below) the 45 degree line are those where the 2017 outcome was better (worse) than planned. MT falls outside the scope of the graph as it notified a headline surplus of 3.9% of GDP compared to a planned surplus of 0.5% of GDP.

* In the case of Portugal, the outcome was worse-than-planned due to a 2.0% of GDP one-off impact of a bank recapitalisation, while for IT, there has been a 0.3% of GDP negative impact of the liquidation of two regional banks.

Source: European Commission based on Commission 2018 spring forecast and 2017 SCPs.

Compared to the 2017 SCPs, the revenue ratio turned out slightly lower than planned, while (cyclically-adjusted) primary expenditure (net of EU funded expenditure) remained stable despite of the planned increase (Table 1.2). The cyclically-adjusted revenue ratio was planned to remain stable, but instead it slightly decreased (at least after excluding EU funds which have a rather volatile pattern). Discretionary revenue measures were neutral on aggregate, as planned, while there have been some marginal revenue shortfalls on aggregate, after excluding the increase in EU funds. Primary expenditure grew in line with potential GDP growth. The cyclically-adjusted primary expenditure ratio remained stable while according to last year's SCPs it would have slightly increased.⁽⁸⁾ Interest expenditure decreased slightly more than planned (-0.1 pp. in the EU and -0.2 pp. in the euro area).

⁽⁸⁾ On the other hand, the primary expenditure ratio (not cyclically-adjusted) decreased by 0.4 pp. of GDP thanks to the dynamic GDP growth.

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

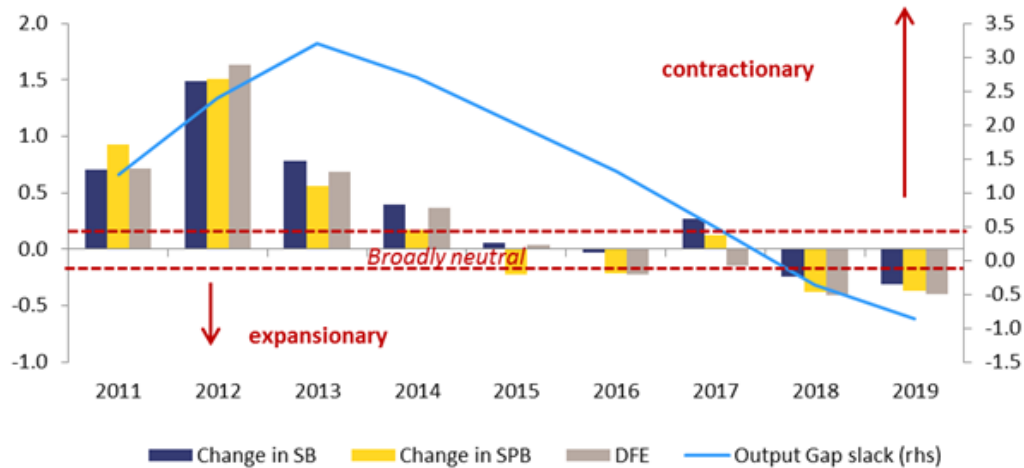
		2016 outturn	2017 outturn	change according to 2017 SCPs	change according to outturn
Cyclically-adjusted revenues (net of EU funds)	EU	44.6	44.5	0.0	-0.1
	Euro area	46.0	45.9	0.0	-0.1
Cyclically-adjusted primary expenditure (net of EU funded expenditure)	EU	43.6	43.6	0.1	0.0
	Euro area	44.7	44.8	0.1	0.0
Interest expenditure	EU	2.1	2.0	-0.1	-0.1
	Euro area	2.1	1.9	-0.1	-0.2

Note: The table compares the changes in the revenue-, primary expenditure- and interest-to-GDP ratios in 2017, as planned in last year's SCPs and as outturn (cyclically-adjusted). The revenue and expenditure ratios have been adjusted for revenues from the EU and EU-funded expenditure respectively.

Source: European Commission based on Commission 2018 spring forecast and 2017 SCPs.

Developments of the fiscal stance in the euro area over the recent years

Graph 1.6: Developments of key indicators for the fiscal stance in the euro area (% of pot. GDP), based on Commission 2018 spring forecast



Note: The two measures of the fiscal stance considered here are: the change in structural balance (SB) compared to the previous year, the change in structural primary balance (SPB) compared to the previous year. The discretionary fiscal effort (DFE) is also added as a measure of the fiscal effort made by the government (Box 1.1).

Source: European Commission 2018 spring forecast.

The euro area fiscal stance was on average broadly neutral over 2015-2017 following considerable fiscal retrenchment over the period 2011-2014 (Graph 1.6), based on all measures considered (i.e. the change in the structural primary balance and the change in the structural balance). In 2017 in particular, the euro area fiscal stance was broadly neutral according to the change in the structural primary balance, while the change in the structural balance pointed to a slightly restrictive stance, largely due to developments of interests paid⁽⁹⁾. In terms of country contributions,⁽¹⁰⁾ Germany experienced a slightly contractionary fiscal stance in 2017, after a neutral stance in 2016. France and Spain also showed

⁽⁹⁾ Given the uncertainty around the measure of structural balance as an unobserved variable and to avoid risks of fine-tuning, a fiscal stance comprised between -0.2% and 0.2% is considered to be broadly neutral.

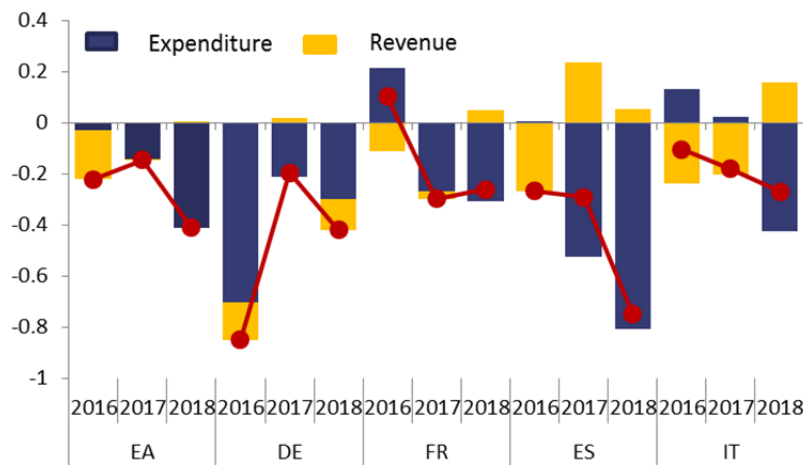
⁽¹⁰⁾ The country-specific observations are made here on the basis of the change in the structural balance.

respectively a contractionary and a slightly contractionary stance in 2017. By contrast, Italy witnessed a slightly expansionary fiscal stance in 2017. The four largest countries of the euro area had a relatively more contractionary fiscal stance in 2017 than in 2016.

The recent development of the effective fiscal efforts made by governments, as measured by the DFE reflects somewhat larger spending, in a context of heterogeneous developments on the revenue side (Graph 1.7):

- The decrease in public spending (as % of GDP), which has been the main driver of the improvement in the euro area general government balance over the recent years (Graph I.8), was mainly due to more favourable cyclical conditions and decreasing interest expenditure. By contrast, in nominal terms the euro area primary expenditure – net of one-offs and cyclical unemployment benefits – increased by 2.6%, i.e. more than the estimated 2.3% medium-term nominal potential growth (Table 1.3). This translates into a slight expansion from the expenditure side according to the DFE in 2017.⁽¹¹⁾ Among the four largest countries, Germany, France and Spain loosened their spending policy in 2017, while Italy experienced mild consolidation efforts.
- On the revenue side, the policies in 2017, as measured according to the DFE, were neutral for the euro area aggregate. While tax policies loosened in 2016 compared to the previous years, in part due to cuts in labour taxes and social contributions in many countries (including the four largest ones), the situation was more heterogeneous across countries in 2017. While discretionary tax policies continued loosening in Italy, Spain made some efforts to raise more revenues.

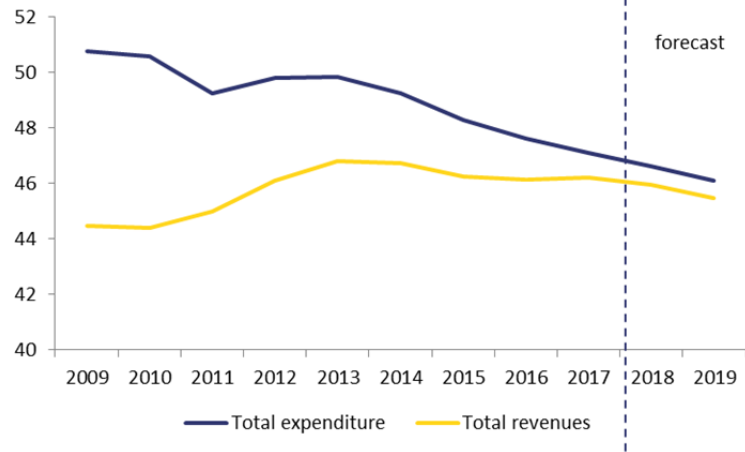
Graph 1.7: Discretionary fiscal effort (% of GDP)



Source: European Commission 2018 spring forecast.

⁽¹¹⁾ However, it can be noted that the 'benchmark' nominal growth rates used in this framework reflect the unusually low inflation environment and the weakness of (10-year smoothed) potential growth estimates, which still incorporate lagged effects from the crisis.

Graph 1.8: General government revenue and expenditure in the euro area (% of GDP)



Source: European Commission 2018 spring forecast.

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

	EA19			DE			ES			FR			IT		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Discretionary expenditure growth (nominal)	1.9	2.6	3.8	4.7	3.8	4.2	0.8	3.0	4.3	1.1	2.4	2.9	0.6	0.6	2.7
Medium term potential growth (nominal) of which:	1.9	2.3	2.7	2.9	3.2	3.5	0.8	1.5	2.1	1.5	1.9	2.2	0.9	0.7	1.7
Medium term potential growth (real):	1.1	1.1	1.3	1.6	1.7	1.8	0.5	0.5	0.7	1.1	1.1	1.1	0.0	0.1	0.2
GDP deflator	0.8	1.1	1.5	1.3	1.5	1.7	0.3	1.0	1.4	0.4	0.8	1.1	0.8	0.6	1.4

Note: Discretionary expenditure is total government expenditure net of one-offs, interest payments and non-discretionary unemployment expenditure

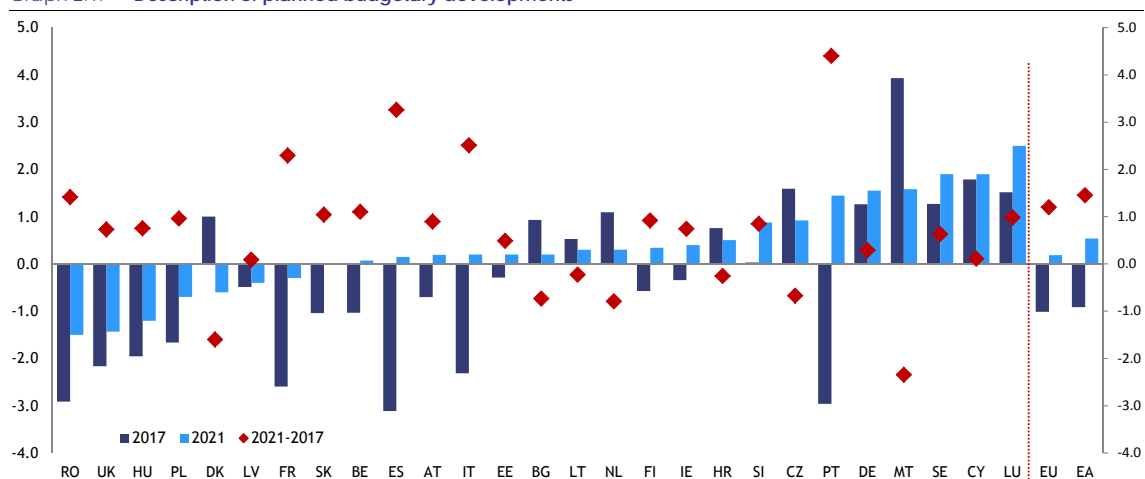
Source: European Commission 2018 spring forecast.

2. BUDGETARY PLANS FOR 2018 AND BEYOND

2.1. DESCRIPTION OF PLANNED BUDGETARY DEVELOPMENTS

The aggregate headline balance is planned to improve from a deficit of 1.0% of GDP in 2017 (0.9% in the euro area) to a small surplus of 0.2% of GDP by 2021 (0.5% in the euro area). In the euro area, the planned improvement is slightly larger, from a deficit of 0.9% in 2017 to a surplus of 0.5% of GDP in 2021.⁽¹²⁾ The improvement in nominal terms is somewhat back-loaded, with overall a limited improvement expected in 2018 (0.2 pp of GDP in the EU and euro area), while 60% of the planned adjustment remains to be delivered in 2020-2021. According to the plans, only FR and LV in the euro area and RO, UK, HU, PL and DK outside the euro area will not have a balanced budget by 2021. Most Member States that had reached a surplus in 2017 plan to keep it (except DK), while often planning a reduction in the size of the surplus.

Graph 2.1: Description of planned budgetary developments



Note: The graph shows the change in the headline balance in 2017 and 2021 according to 2018 SCPs. Member States are ranked according to their budget balance in 2021, from highest deficit to highest surplus.

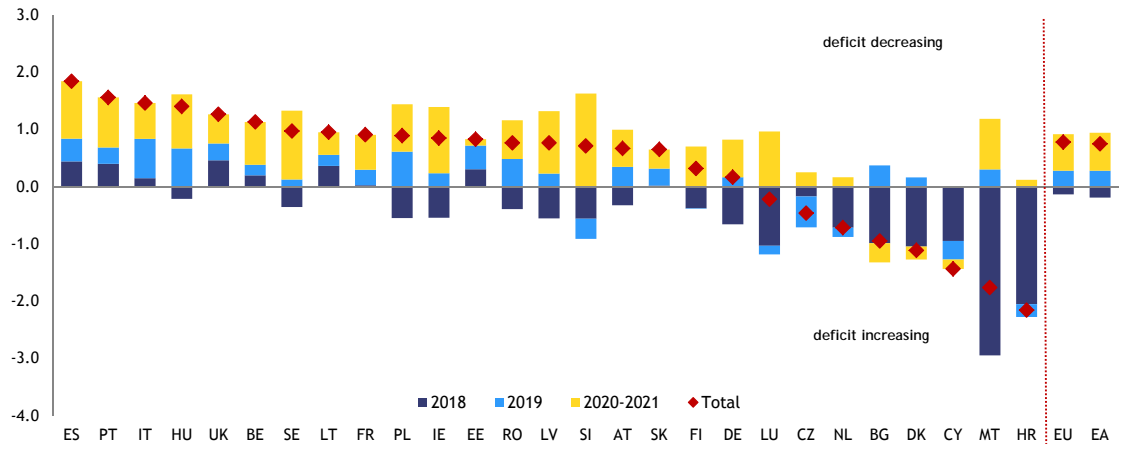
Source: European Commission based on 2018 SCPs.

Looking at the planned evolution of the (recalculated) structural balance,⁽¹³⁾ Member States plans would result in a slight increase in the aggregate structural deficit in 2018 in the EU, followed by a fiscal tightening of around 0.3% per year in 2019-2021. In 2018, the structural balance is expected to worsen by 0.1% of GDP in the EU and by 0.2% in the euro area, compared to an aggregate improvement of around 0.2% of GDP in 2018 that had been planned in last year's SCPs. In 2019, the programmes point to an aggregate improvement of 0.3% of GDP, followed by a planned adjustment of 0.4% in 2020 and 0.3% in 2021. As a result, the structural balance would still show a small deficit in 2021 in the EU, while reaching a slight surplus of 0.1% of GDP for the euro area. A detailed discussion of the fiscal stance in the euro area, based both on the Commission 2018 spring forecast and the SCPs, is provided in subsection 2.2.

⁽¹²⁾ The aggregate fiscal projections reflect the submission of no-policy change SCPs on the part of Member States where the government lacks full budgetary powers, notably Italy and Slovenia.

⁽¹³⁾ Recalculated by the Commission on the basis of the information provided in the programmes according to the commonly agreed methodology.

Graph 2.2: The change in the (recalculated) structural balance planned in 2018-2021 in the EU Member States according to the 2018 SCPs (% of potential GDP, cumulative)

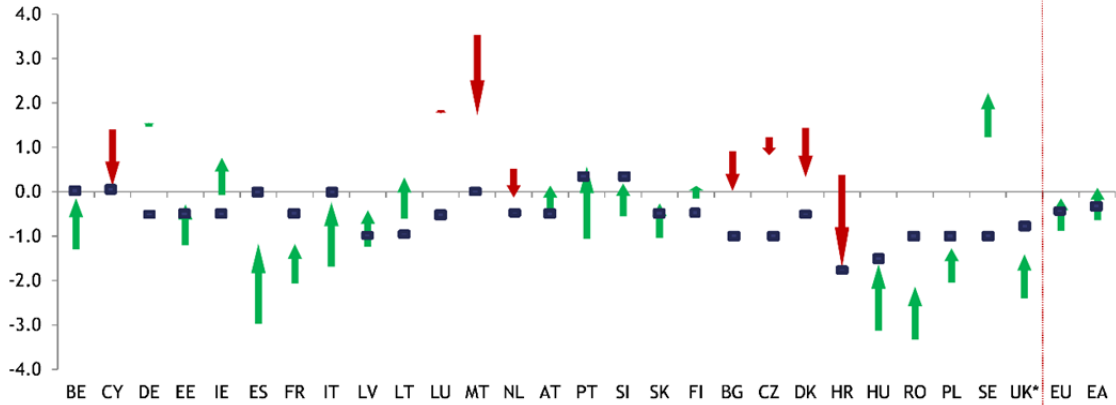


Note: The graph shows the change in the structural balance over the period 2018-2021 according to the 2018 SCPs. Countries are ordered from largest to smallest cumulative change in the structural budget balance in the period 2018-2021.

Source: European Commission based on 2018 SCPs.

All Member States plan to move in the direction of or remain at their MTOs. All Member States that are not yet at their MTO plan some structural adjustment over the SCP horizon, but for some of them the effort is back-loaded (Graph 2.2). In particular, some of them plan a structural deterioration in 2018 (HU, PL, IE, LV, SI, AT and RO) or a very limited (or zero) structural improvement in that year (IT, BE, FR, SK). Overall, the fiscal adjustment, as measured by the change in the structural balance, is particularly back-loaded for HU, BE, FR, PL, RO and SI. Of the 13 Member States that have reached their MTO in 2017 based on the Commission 2018 spring forecast, eight plan a fiscal expansion over the SCP horizon but they would all remain at or above their MTO (Graph 2.3). By the end of the programme horizon, eighteen Member States plan to have reached the MTO, while another four expect to be in its vicinity (within 0.25% of GDP distance).

Graph 2.3: Planned progress towards the MTOs in 2018-2021 (% of potential GDP)

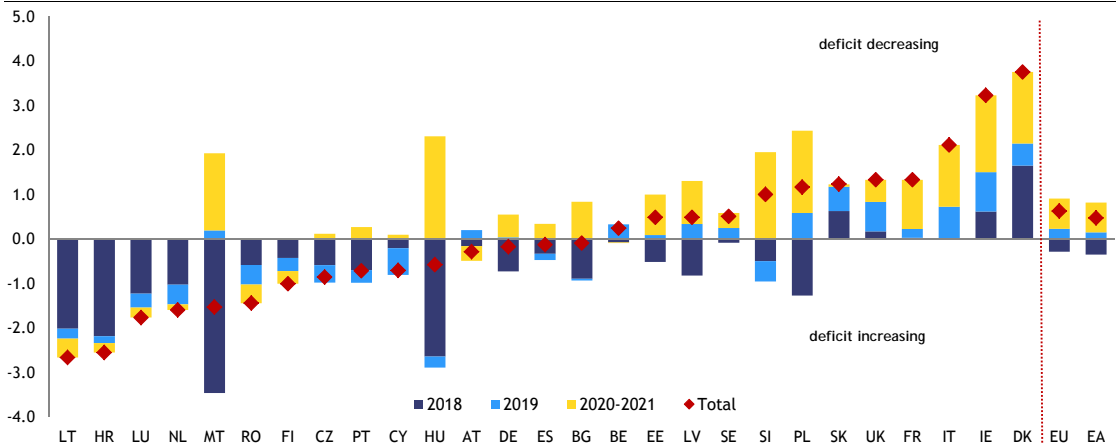


Notes: The graph sets out Member States' reported progress towards their respective MTOs throughout the programme horizon. The base of the arrow represents the starting position of the structural balance in 2017 based on the SCPs, while the tip of the arrow represents the projected (recalculated) structural balance in 2021. Thus, the size of the green (red) arrow corresponds to the projected overall improvement (deterioration) in the structural balance throughout the programme horizon. Finally, the dark squares represent each Member State's MTO for 2019 and beyond. For the euro area and the EU, an aggregate 'MTO' were calculated as weighted averages of country-specific MTOs.

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

Source: European Commission based on 2018 SCPs.

Graph 2.4: The Discretionary fiscal effort planned in 2018-2021 in the EU Member States according to the 2018 SCPs (% of GDP)



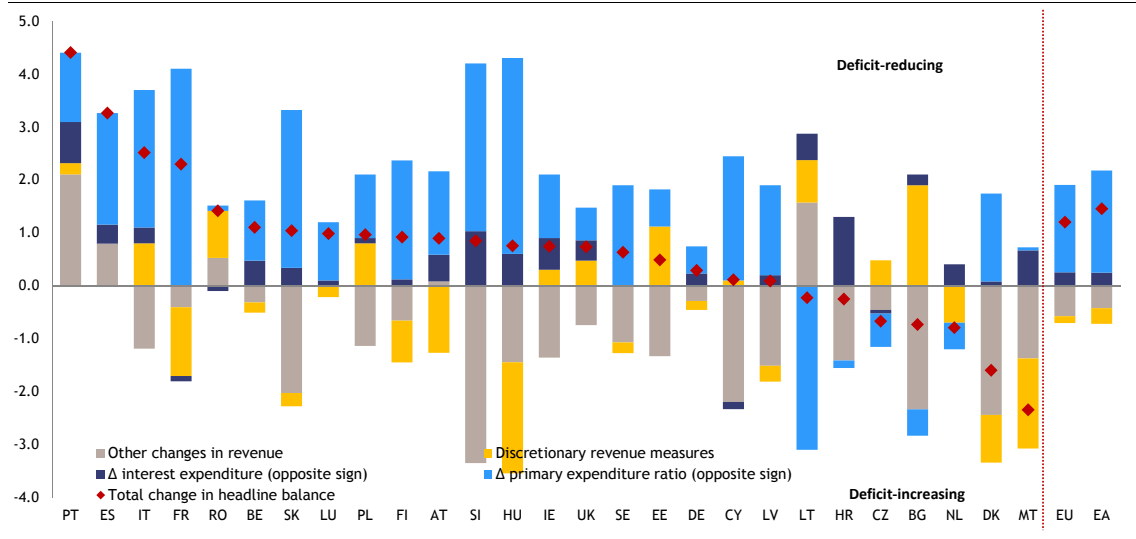
Source: European Commission based on 2018 SCPs.

The discretionary fiscal effort planned by Member States is expansionary in 2018, followed by a more restrictive stance as of 2019. The DFE calculated on the basis of the programmes, is estimated at -0.3% of GDP in 2018 for both the EU and the euro area. This is mainly driven by primary expenditure exceeding the medium-term average growth rate that is used as a reference rate for the DFE. On the other hand, revenue measures are slightly deficit-reducing in 2018. In 2019, the DFE becomes positive in both the EU and euro area, at 0.2% of GDP. This is driven by expenditure restraint, which is only partly offset by planned revenue-reducing measures. Over 2020-2021, the planned effort amounts to 0.3% of GDP on average (i.e. slightly contractionary), mainly driven by further expenditure restraint. The planned DFE over the entire programme period is negative in around half of the Member States, mostly as a result of a

negative effort in 2018 (Graph 2.4). In contrast, the planned effort is particularly positive in SI, PL, SK, UK, FR, IT, IE and DK. However it is often back-loaded in the outer years of the programme.

In terms of fiscal composition, the planned improvement in the headline balance is mainly driven by a reduction in the primary expenditure ratio (Graph 2.5). The primary expenditure ratio is expected to drop by around 1.6 pps. Of GDP in the EU and around 1.9 pps. In the euro area. This decrease is to a large extent driven by expenditure restraint below potential growth, as illustrated by the planned drop in the structural primary expenditure ratio, by 1.1 pps., both in the EU and in the euro area. The decrease in the unadjusted primary expenditure ratio is further supported by GDP growth above potential which has a positive impact on the denominator. Public investment is expected to increase in 2018 and to remain broadly stable in subsequent years. A decline in interest expenditure contributes to the fiscal adjustment by around 0.25 pps. Of GDP, especially in 2018 and 2019. On aggregate, interest expenditure is expected to amount to 1.8% of GDP in 2021, against 2.0% in 2017. The drop in the expenditure ratio is partly offset by a decline in the revenue ratio, by around 0.7 pps. by 2021. Only a limited part of this drop is explained by reported discretionary measures, amounting to 0.1 pps. Of GDP in the EU and 0.3 pps. Of GDP in the euro area. This means that on aggregate sizeable revenue shortfalls are expected or that further measures need to be specified.

Graph 2.5: Composition of the adjustment of the headline balance in the period 2018-2021, as planned in the 2018 SCPs (pps. of GDP)



Note: A positive sign indicates a contribution to the fiscal adjustment. In other words a drop in primary expenditure or interest expenditure is shown as a positive value, while a drop in revenues is shown as a negative value.

Source: European Commission based on 2018 SCPs.

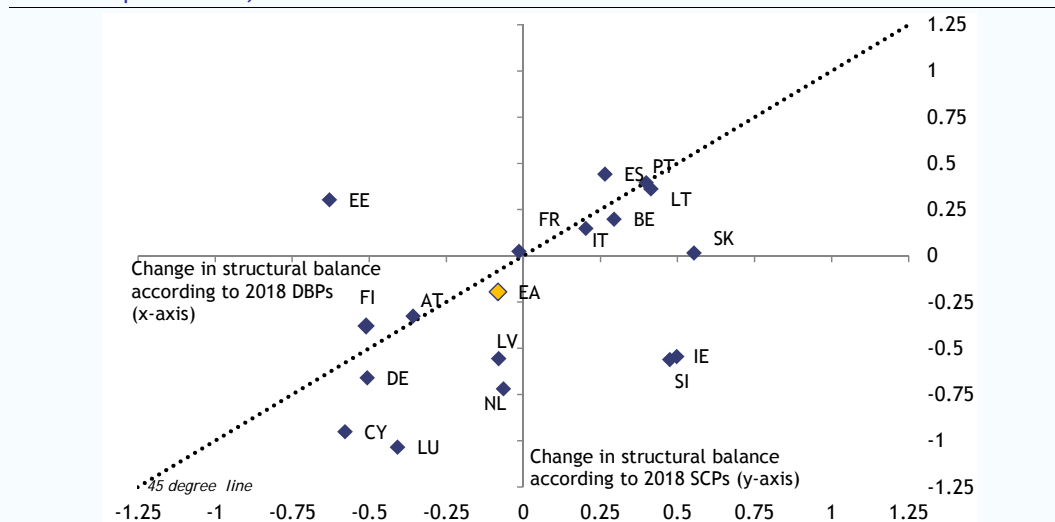
Box 2.1: Comparison with the Draft Budgetary Plans of euro area Member States

The cycle of fiscal surveillance for euro area Member States is structured around two main milestones in the calendar year: the submission of Stability Programmes (SPs) in the spring and the submission of Draft Budgetary Plans (DBPs) in the autumn. While the latter concerns only the following year, the SPs cover a wider timespan and contain the authorities' medium-term fiscal strategies. However the two fiscal documents overlap for one year, 2018 in this case. The information contained in the SPs for 2018 is thus an update of Member States' plans as presented to their euro area peers last autumn. This box compares the 2018 overall macroeconomic outlook and budgetary targets for the euro area, as presented in the most recent DBPs and SPs. In the case of AT, DE and ES, data from a no-policy-change DBPs as submitted in October 2017 is used. ⁽¹⁾

For 2018, the growth outlook has been revised upwards since last autumn, with the GDP growth forecast now at 2.4% in the euro area compared to 2.0% projected in the DBPs. The GDP deflator is now expected at 1.5% in 2018 (compared to 1.4% in the DBPs).

The upward revision of the growth outlook is not translated into a better headline target. The headline balance for the euro area is planned to improve by 0.2% of GDP according to the programmes, in line with the DBP targets. In structural terms, this results in an expansion by 0.2% of GDP in 2018, compared to 0.1% of GDP on the basis of the DBPs. Indeed, most Member States now plan a lower effort in 2018 compared to their DBP, with the biggest downward revisions in MT, IE, SI, NL, LU, SK, LV and CY. Also DE plans a more expansionary fiscal stance compared to its no-policy-change DBP (-0.7% of GDP versus -0.5% of GDP). Substantial upward revisions of targets only occurred in EE (by 0.9% of GDP) and Spain (0.4% of GDP versus 0.3% of GDP in its no-policy-change DBP).

Graph 2.1a: Change in the structural balance in 2018 as planned in the 2018 SCPs vs 2018 Draft Budgetary Plans (% of potential GDP)



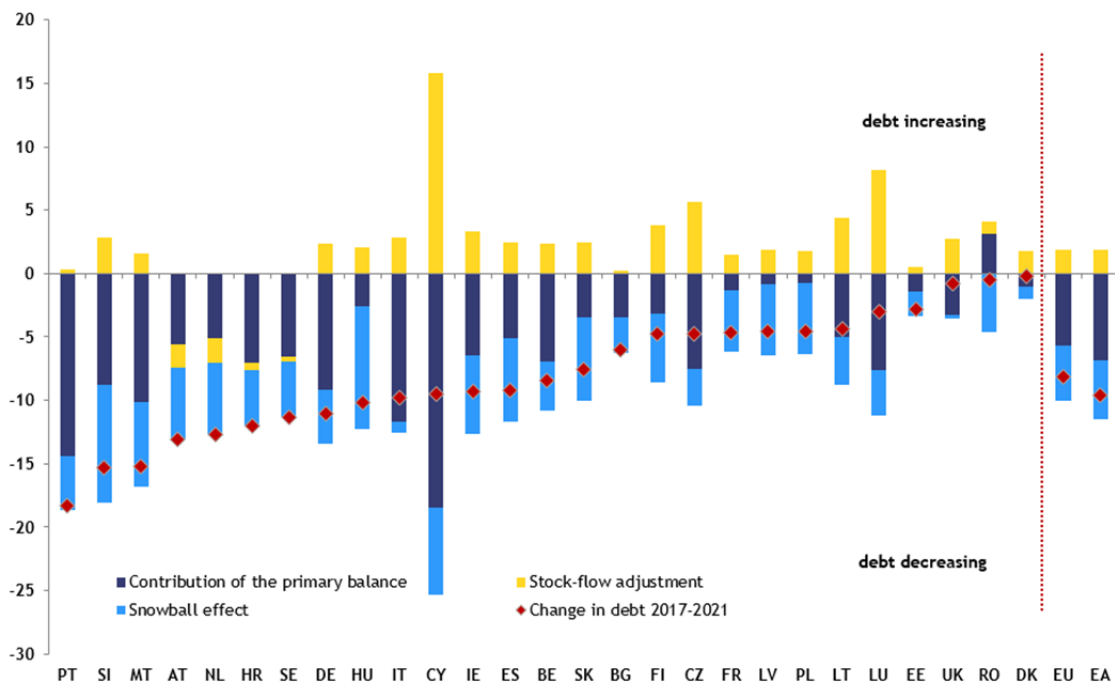
Note: The graph plots the change in the structural balance in 2018 as planned in the 2018 SCPs against the 2018 DBPs. For Member States above the 45 degree line, the structural balance now appears more restrictive (less expansionary) than in autumn. MT falls outside the graph as it plans now plans a deterioration of 2.9% of GDP (compared to -0.4% in its DBP).

Source: European Commission.

⁽¹⁾ AT has sent an updated DBP for 2018 in March 2018, ES in April 2018 and DE in June 2018.

All Member States plan a decline in their public debt, resulting in a drop in aggregate debt from above 82% of GDP to 74% of GDP by 2021 (Graph 2.6). A similar drop is planned in the euro area, from 87% of GDP in 2017 to 78% by 2021. The decline would be mostly driven by primary surpluses and to a lesser extent by a favourable growth-interest differential, i.e. a debt-reducing impact thanks to average nominal GDP growth exceeding the implicit interest rate on the outstanding debt. The biggest debt reduction is planned in PT, SI and MT. In 2021, debt would remain above 100% of GDP in IT (at 122% of GDP) and PT (at 107% of GDP). The growth-interest differential (snowball effect) is favourable in all Member States, while also the accumulation of primary surpluses contributes to the debt reduction in all Member States but RO. Stock-flow adjustments have an upward impact on the debt of most Member States. The number of Member States with a debt ratio above 60% of GDP would drop from 14 in 2017 to 10 in 2021, with FI, SI, DE and IE planning to reduce their debt ratio below 60% by the end of the programme period. Of the countries with a debt above 60% of GDP, FR, IT and UK do not plan to reduce the gap to the 60% ceiling by 1/20th per year on average.

Graph 2.6: Contributions to the change in the debt-to-GDP ratio in the period 2018-2021, as planned in the 2018 SCPs (pps. of GDP)



Note: The graph disaggregates the 2018-2021 change to Member States debt-to-GDP ratios between the contributions of the primary balance, stock-flow adjustments and the snowball-effect, the latter of which refers to the interest rate-growth rate differential. Stock-flow adjustments are calculated as the residual between the annual changes in the debt levels of the SCPs and the reported headline balances. Values below (above) zero indicate a decreasing (increasing) impact on the debt ratio. For Cyprus, the large stock-flow adjustment is mainly due to an issuance of a series of government bonds in April 2018, the proceeds of which were deposited with the Cyprus Cooperative Bank (CCB). The accumulation of these liquid assets in the form of deposits at the CCB is expected to be maintained over the programme horizon.

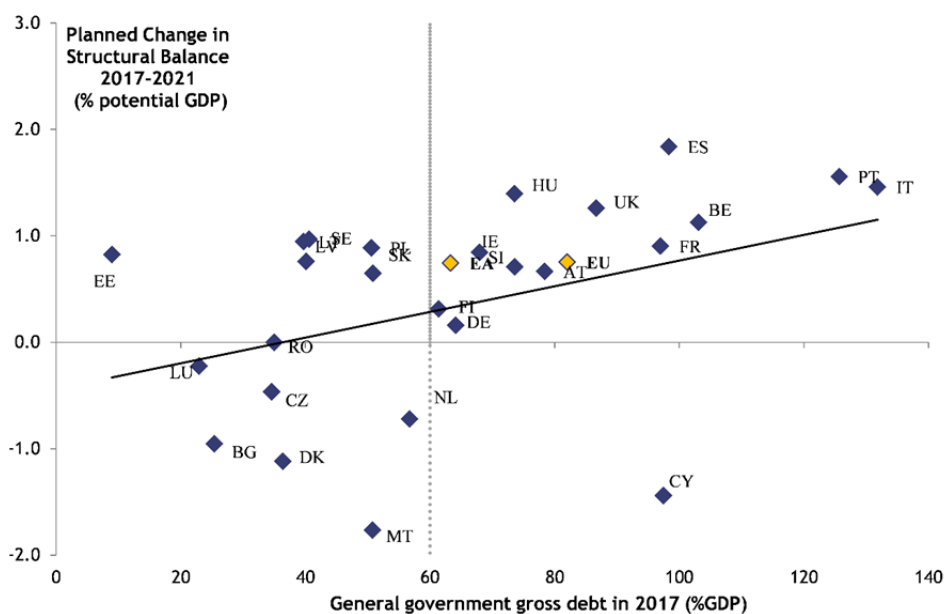
Source: European Commission based on 2018 SCPs.

The planned structural effort is generally positively correlated to Member States' current debt positions, but most of the high-debt countries plan a smaller adjustment than suggested by the indicator of fiscal sustainability risk (S1). In general, Member States with a higher debt plan a higher fiscal adjustment, measured by the change in the structural balance, also due to the initial distance from their MTO.⁽¹⁴⁾

⁽¹⁴⁾ One notable exception is Cyprus, which has already reached its MTO and plans to remain at its MTO over the programme horizon.

However, in some cases such as in IT, FR, ES, PT and BE, the planned adjustment is significantly smaller than what a fiscal risk assessment, measured by the S1 indicator and discussed in Section 4, would suggest.

Graph 2.7: Debt level in 2017 vs planned change in structural budget balance over the period 2018-2021



Source: European Commission based on 2018 SCPs.

2.2. ASSESSMENT OF THE EURO AREA FISCAL STANCE IN 2019 WITH A VIEW TO THE POLICY MIX

This section analyses the euro area fiscal stance in 2018 and 2019 in the context of the broader policy mix. In particular, Section 2.2.1 describes the monetary and fiscal stances in 2018 and 2019. Section 2.2.2 then assesses the appropriateness of the euro area fiscal stance in the light of the policy mix. Finally, Section 2.2.3 discusses the fiscal stance emerging from the stability programmes.

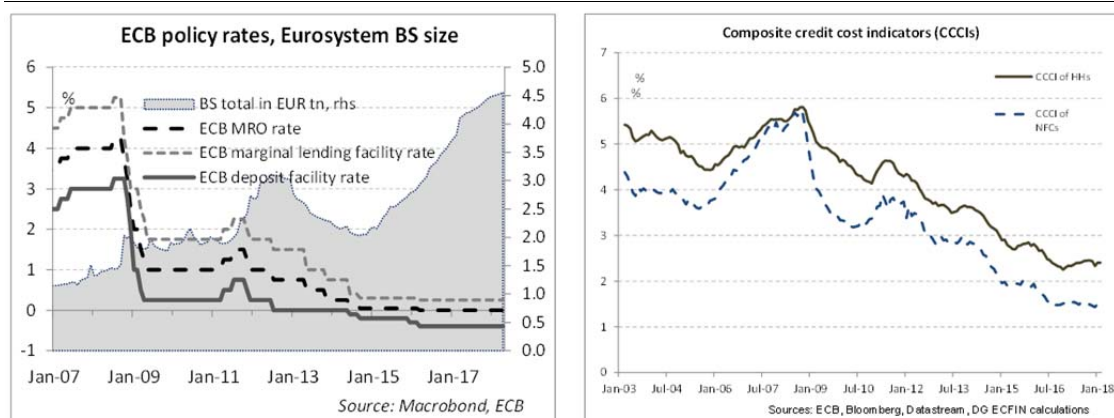
2.2.1. Description of the monetary and fiscal stances in 2018 and 2019

Monetary policy in the euro area remains highly accommodative. The ECB Governing Council at its monetary policy meetings in 2018 has repeatedly confirmed the monetary policy measures in place – such as the forward guidance on policy rates, the net asset purchases until at least September 2018 and its reinvestment policy.⁽¹⁵⁾ In June 2018, the ECB anticipated to continue net asset purchases after September 2018 until end-December 2018 at the monthly pace of EUR 15 billion, and clarified that interest rates would be on hold until at least summer 2019. This reflected the view that an ample degree of monetary stimulus continued to be necessary to support the further build up of domestic price pressures and headline inflation over the medium term towards the ECB objective. Looking ahead, any further

⁽¹⁵⁾ The forward guidance on policy rates states that the key ECB interest rates are expected to remain at their present levels at least through the summer of 2019. The net asset purchases, at the current monthly pace of EUR 30 billion, will continue until end-September 2018. The Governing Council anticipates that, after September 2018, subject to incoming data confirming the Governing Council's medium-term inflation outlook, the monthly pace of the net asset purchases will be reduced to €15 billion until the end of December 2018 and that net purchases will then end. As for the reinvestment policy, the Eurosystem will continue to reinvest the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary.

changes to the ECB monetary policy are expected to be tied to the continued progress on reaching a sustained adjustment in the path of inflation. The latter will be assessed based on three main criteria: ‘convergence’ of headline inflation towards the ECB’s inflation objective over the medium term, ‘confidence’ in the realisation of the expected path of inflation and ‘resilience’ of inflation convergence.

Graph 2.8: Monetary policy stance in the euro area



The ongoing implementation of such monetary policy and the current anticipation of a very gradual pace of normalisation are expected to keep financing conditions favourable in the euro area. Developments in credit costs overall have been rather muted in the euro area over the past months. This reflects the fact that, while credit costs have decreased marginally for households on balance since the autumn on account of slightly lower rates on housing loans, the composite credit cost index (CCCI) has increased somewhat from very low levels for non-financial corporations, due to an increase in corporate sector bond yields and slightly higher bank lending rates for medium- and long-term loans. Although long-term interest rates have increased somewhat amid fluctuations from very low levels since last autumn, the high stock of assets purchased under the Asset Purchase Programme (APP) in the Eurosystem’s balance sheet, in combination with the continued reinvestment of maturing securities, should ensure that interest rates will remain at relatively low levels in the euro area.

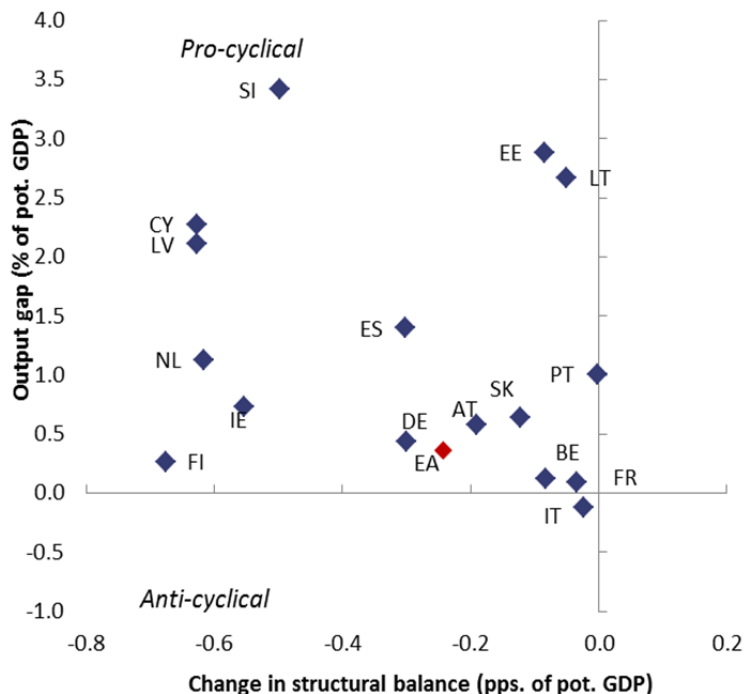
According to the Commission 2018 spring forecast, the fiscal stance of the euro area is projected to be broadly neutral in 2018 and slightly expansionary in 2019, as measured by the change in the structural balance. For 2019, this projection is made under the assumption of unchanged policies. The change in the structural balance is around -0.2 percentage point of GDP for 2018 and -0.3 percentage point for 2019 (Graph 1.6). When removing interest payments and thereby considering the change in the structural primary balance, the fiscal stance appears slightly expansionary in both years (by almost 0.4 percentage point).⁽¹⁶⁾

In terms of country-specific developments, in 2018, a majority of euro area Member States is projected to have a slightly expansionary fiscal stance while having a positive output gap.⁽¹⁷⁾ This could be seen in the upper-left quadrant of Graph 2.9 below, based on Commission 2018 spring forecast. Looking at the five largest euro area Member States, an expansionary fiscal stance is projected for Germany, Spain and the Netherlands, while a broadly neutral fiscal stance is forecast for France and Italy.

⁽¹⁶⁾ Measured by the DFE, the discretionary fiscal policy is projected to be slightly expansionary for the euro area aggregate in 2018 and 2019. More specifically, net primary expenditure is set to increase slightly more than medium-term potential growth, providing further expansionary impulse.

⁽¹⁷⁾ The country-specific observations are derived from the structural balance change indicator.

Graph 2.9: Change in structural balance vs output gap, 2018, euro area Member States



Note: In a context of positive output gaps, 'pro-cyclical' and 'anti-cyclical' refer in this graph to whether the fiscal policy change (compared to the previous year) contributes to support or to drag on the economy. MT falls outside the graph with a deterioration of 2.9% of GDP and an OG of approximately 1%.

Source: European Commission 2018 spring forecast.

2.2.2. What could be an appropriate euro area fiscal stance in 2019 with a view to the policy mix?

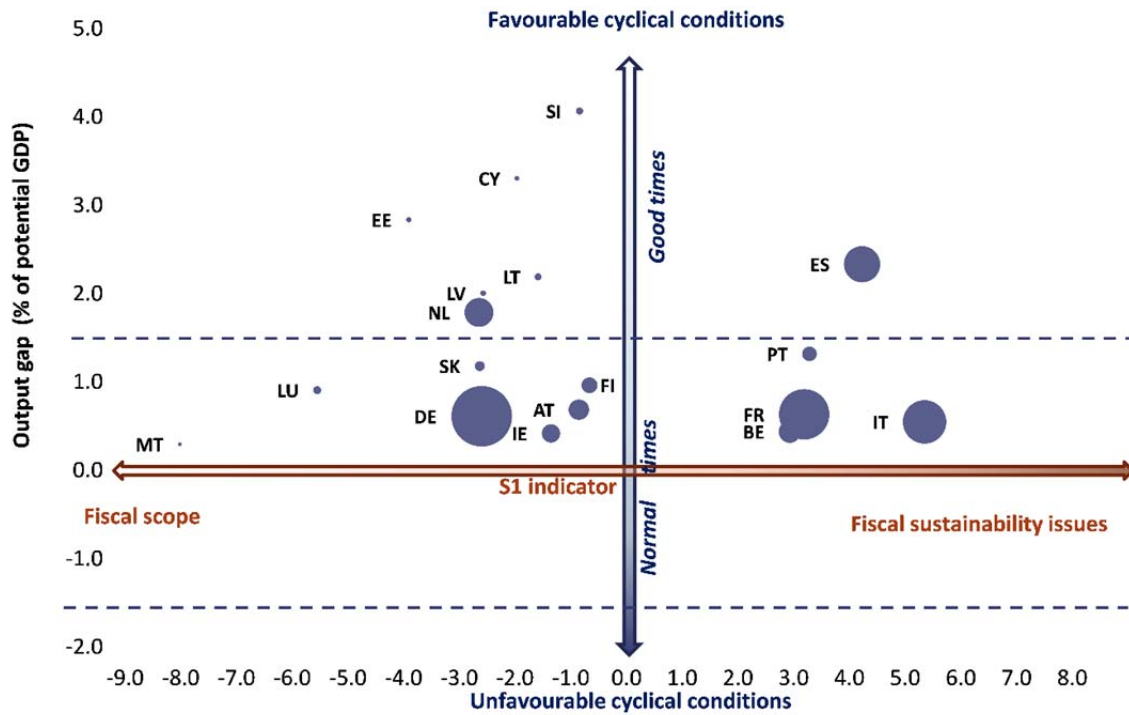
Fiscal policy faces several objectives, in particular to ensure long-term sustainability and short-term stabilisation.⁽¹⁸⁾ These objectives can be presented on a 'fiscal map' using the S1 indicator (to measure sustainability needs)⁽¹⁹⁾ and the output gap projected under the assumption of a neutral fiscal stance (to measure stabilisation needs) (Graph 2.10).⁽²⁰⁾

⁽¹⁸⁾ This follows the approach presented in European Commission (2016): Report on Public Finances in EMU : The fiscal stance in the euro area: Methodological issues, December.

⁽¹⁹⁾ The S1 indicator measures the change in the structural primary balance (dSPB) required from 2018 to 2022 to bring general government debt to the reference threshold of 60% of GDP in 2032. For practical reasons the indicator used here is the S1 indicator according to the '2017 scenario', i.e. where the SPB is held constant at its last outturn value (for 2017). When outturn data for 2018 become available, the updated S1 indicator will take that as a new starting point, and thus be more relevant for assessing consolidation needs in 2019.

⁽²⁰⁾ Technically, the output gap expected for 2019 in the Commission spring 2018 forecast is adjusted for the impact of the projected change in the structural primary balance multiplied by an assumed uniform fiscal multiplier of 0.8.

Graph 2.10: Fiscal map: Sustainability and stabilisation challenges in 2019 (% of GDP)



Notes: Horizontal axis: indicator of medium-term risk to the sustainability of public finances: S1 scenario 2017, which measures the total cumulative adjustment (in terms of change in the structural primary balance over 5 years) that would be needed to bring the debt ratio to 60% of GDP by 2032. Vertical axis: Output gap for 2019 projected under the assumption of a neutral fiscal stance (see footnote 20). Bubble size corresponds to nominal GDP in 2019. The output gap estimates are based on the production function method, known as the commonly agreed methodology. In the case of Spain and Slovenia, there is a high degree of uncertainty around these estimates. Taking into account a broader range of economic indicators for these Member States, the output gap estimate based on the common methodology seems to underestimate the remaining slack in the economy, and notably in the labour market.⁽²¹⁾

Source: European Commission 2018 spring forecast.

The current economic expansion provides opportunity to reduce excessive levels of debt in many Member States and re-build fiscal buffers. According to the Commission 2018 spring forecast, all euro area Member States except Greece are set to benefit from favourable cyclical conditions in 2019, based on their positive output gap. As the removal of monetary accommodation by the ECB is likely to be only very gradual, this calls for prioritising sustainability needs in a country specific approach.

- Indeed, many euro area Member States should be rebuilding fiscal buffers to be able to allow the automatic fiscal stabilisers to fully play their role in an economic downturn (thereby mitigating the employment and social costs) and to tackle possible increases in real interest rates. This notably concerns countries that still show sustainability challenges due to their excessive levels of public debt or implicit liability related to population ageing.

⁽²¹⁾ In particular, in the case of Slovenia, the number of discouraged workers and the high share of involuntary part-time work suggest that the crisis had a very persistent impact on the labour market. At the same time, investment, as share of GDP, is expected to remain below the euro area average, and more so the average of peer countries in the region. This is evidence for the remaining idle capacity in the economy. Similarly, in the case of Spain, there remains substantial slack in the labour market, with the unemployment rate remaining one of the highest in the EU. As employment remains below the pre-crisis level, wage pressure is expected to remain low, with a dampening effect on inflation. Given the degree of under-employment, in combination with the fact that output gap estimates by other institutions are generally lower than the estimate based on the commonly agreed methodology, there remains large uncertainty about the cyclical position of the Spanish economy.

- In addition, the current period of negative differentials between interest rates paid on debt and nominal growth offers a chance, in particular to highly indebted Member States, to deleverage and further strengthen fiscal buffers, while still benefitting from the accommodative monetary policy that supports growth. The current economic expansion in the euro area and the associated steepening of yield curve observed since the fourth quarter of 2016 suggest that the opportunity presented by the current low financing cost environment might be slowly fading.

At the same time, the fiscal map stresses the relevance for differentiated fiscal policies.

- The existing fiscal scope in some countries could be mobilised to invest in long-term growth. Additional public investment, in particular in physical and digital infrastructure in some of these countries (and notably in the largest ones), could not only enhance their own future growth prospects, but also further support the current and future economic growth of the whole euro area, while contributing to adjust current account surpluses.
- From a short-term view point, the simultaneous and undifferentiated fiscal consolidations of all large euro area Member States, including those with no sustainability issues, can generate negative spillovers to the rest of the euro area.⁽²²⁾ Moreover, the pace of consolidation in the euro area aggregate should also take into account the fact that the legacy of the crisis is still experienced in some countries, e.g. with persisting labour market slack, which can lead to hysteresis effects and permanent output losses.⁽²³⁾

Against these considerations, two types of situations can be tentatively distinguished for 2019, based on the existence of a fiscal scope and the potential macroeconomic effects of its use:⁽²⁴⁾

- Some countries (Graph 2.10 – upper-right quadrant) have no fiscal scope, as indicated by S1 sustainability indicators. These countries need to make significant fiscal adjustments to tackle their medium term sustainability risk. The pace of the adjustment may take into account the cyclical situations. The positive output gap expected in these countries in 2019 together with a supportive monetary policy stance gives them the opportunity to consolidate now. These countries include some of the largest euro area countries (France, Italy and Spain), as well as Belgium and Portugal.
- Among the countries that have some fiscal scope based on the S1 indicator⁽²⁵⁾ (Graph 2.10 – upper-left quadrant), some can potentially use it to support investment.⁽²⁶⁾ For instance, in Germany, there seems to remain scope for using fiscal (and structural) policies to achieve higher investment in particular on education, research and innovation, while respecting the medium-term objective. The

⁽²²⁾ In addition, in a situation of monetary policy still constrained at the zero lower bound, fiscal multipliers (stemming from a domestic stimulus or cross-country spill-overs) are expected to be relatively large, especially if the deleveraging needs of the private sector are high. See Buti, M. Leandro, J. and K. Berti (2017): An unusual recovery: Charting the way forward for European policymakers, EU Vox, 12 May.

⁽²³⁾ See European Commission (2017): An Overview of the 2017 Stability and Convergence Programmes and an Assessment of the Euro Area Fiscal Stance for 2018, Institutional Paper 59, July. See also footnote 20 of the current document.

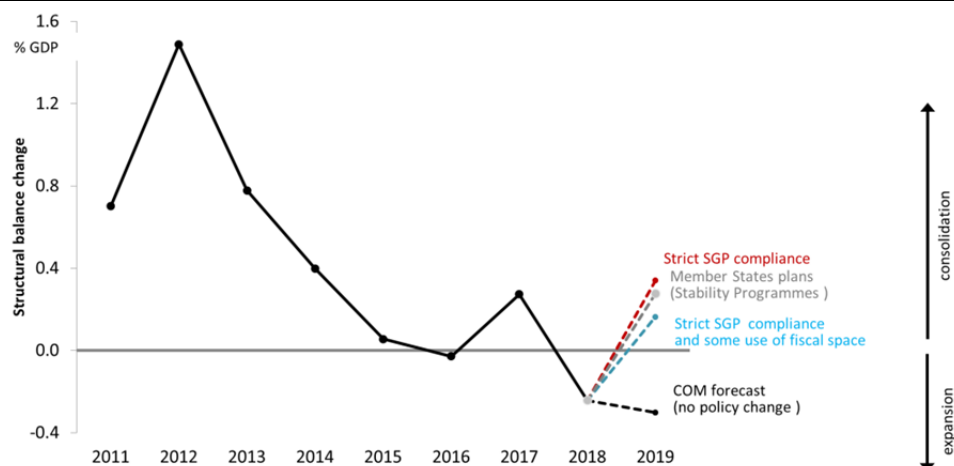
⁽²⁴⁾ It should be stressed again here that the economic considerations drawn from the fiscal map that follow can in no way dispense Member States from their obligations under the SGP.

⁽²⁵⁾ The S1 indicator represents a stylised measure of sustainability needs. In the Commission fiscal sustainability assessment framework, the assessment of medium-term sustainability risks is based on a broader approach including a Debt Sustainability Analysis, encompassing a large set of deterministic and stochastic projections (Box 4.1 for more details and references). In addition, the measure of sustainability needs provided by the S1 indicator can differ from the perspective of the compliance to the SGP (and therefore the Country-Specific Recommendations). Here, Member States with a negative S1 are shown to present some fiscal scope, while in the framework of the SGP, Member States with fiscal scope are those overachieving their MTO.

⁽²⁶⁾ In countries with fiscal scope but high risks of overheating, the use of fiscal scope should take into account the macroeconomic effects of a potential fiscal stimulus.

Netherlands also appears to have some room for raising public investment in research, development and innovation to enhance potential growth and supporting euro area growth.

Graph 2.11: Fiscal stance scenarios



Note: The scenarios displayed in the graph represent the change in the aggregate structural balance of the euro area excluding EL. The scenario 'strict SGP compliance' assumes that Member States that are not at their MTO implement the fiscal adjustment recommended by the 2018 Country-Specific Recommendations.⁽²⁷⁾ The scenario 'strict SGP compliance and some use of fiscal space' assumes on top of strict SGP compliance that Germany and the Netherlands use part of their fiscal scope in 2019 (a decrease in the structural balance by resp. 0.5% and 0.4% of GDP).

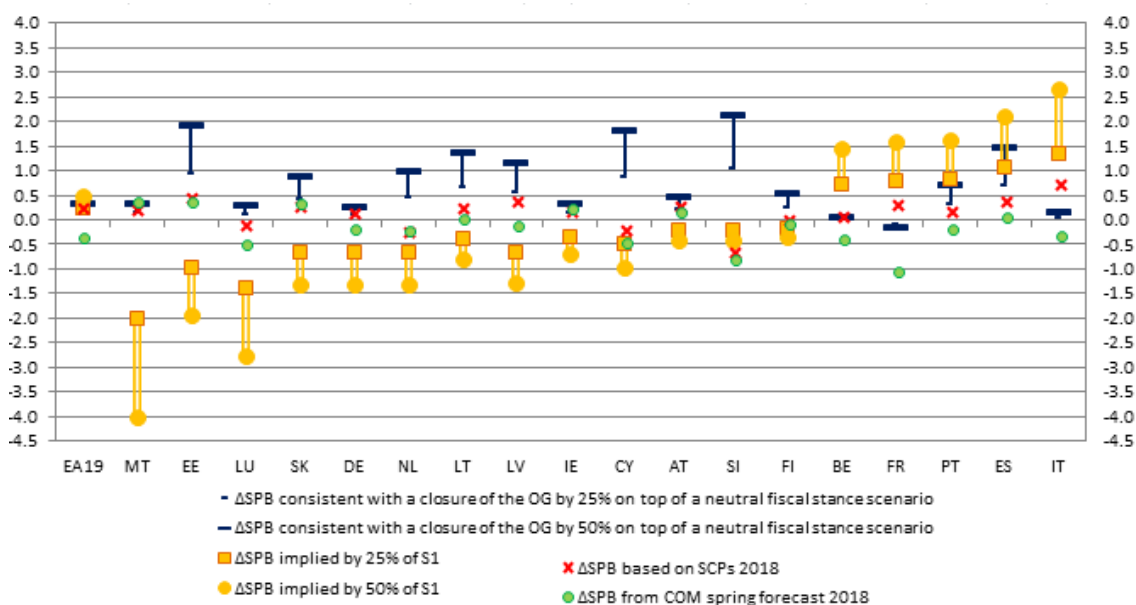
Source: European Commission based on Commission 2018 spring forecast and 2018 stability programmes.

This differentiated approach could lead to a broadly neutral fiscal stance at the euro area level, for 2019, assuming the use of fiscal scope in some Member States. While some large euro area countries would need to consolidate (Italy, Spain and France) as well as Portugal and Belgium, other Member States that have fiscal scope could use part of it (including Germany). In order to illustrate the impact on the euro area fiscal stance, a scenario "SGP compliance and some use of fiscal space" was built and shown in Graph 2.11. It assumes that Member States not at the MTO in 2018 are fully compliant with SGP in 2019, while Germany and the Netherlands use part of their fiscal scope in 2019, taking into account their investment needs, as called by the proposed 2018 Country-Specific Recommendations in qualitative terms. This scenario points to a broadly neutral stance for the euro area as a whole, that is, an improvement of less than 0.2% of GDP, while strict compliance with SGP *without* use of fiscal scope would result in a slightly contractionary stance of 0.3% for the euro area. This scenario is also broadly consistent with the outcome of economic scenario based on the sustainability needs of Member States. Like in the 2017 issue of the note, we measure the sustainability needs of Member States by a conventional reduction of the medium-term sustainability indicator S1, for instance by 25% (Graph 2.12 for different modulations of the sustainability and stabilisation needs).⁽²⁸⁾ Member States that have sustainability issues (as measured by a positive value of S1) would need to consolidate, while Member States without sustainability issues (as measured by negative value of S1) are assumed to expand. Reaching this conventional sustainability target for each Member State would result in a modest improvement in the structural balance of the euro area of around ¼% of GDP.

⁽²⁷⁾ See Vade mecum on the Stability and Growth Pact (2018), pag. 37-38, for the definition of the required annual fiscal effort.

⁽²⁸⁾ See footnote 25 above.

Graph 2.12: Change in the structural primary balance in 2019 in the stability programmes against sustainability and stabilisation needs (% of GDP)



Notes: Member States are ranked by the S1 indicator.

How to read this chart:

The sustainability criterion is based on the S1 indicator and assumes that 25 % to 50 % of the indicated change in the structural primary balance (SPB) is implemented in 2019, corresponding to more or less frontloading of the consolidation effort if S1 is positive. For countries with a negative S1, this indicates some scope for expansionary policies in response to possible stabilisation needs.

The stabilisation criterion is measured as the change in the SPB for which fiscal policy reduces by 25% (short blue bar) or 50% (long blue bar) the output gap that would result from a neutral-fiscal policy scenario in 2019. In other words, this output gap closure of 25% or 50% is achieved in addition to the spontaneous output gap closure, as projected in the Commission 2018 spring forecast (adjusted by assuming neutral fiscal stance). This assumes that fiscal policy always plays a countercyclical role, either supporting the closure of the output gap or mitigating its widening. If the neutral-fiscal-policy assumption implies that the output gap is changing sign, then the stabilisation objective caps the closure of the output gap at 100%, thus avoiding pro-cyclicality.

The red crosses show the planned changes in the SPB presented by Member States in their 2018 stability programmes, as recalculated by the Commission using the commonly agreed methodology for potential output. The green dots show the change in the SPB according to the Commission 2018 spring forecast, which is derived on a no-policy change assumption.

Source: European Commission based on Commission 2018 spring forecast and 2018 stability programmes.

Overall, in terms of the broader policy mix, it remains of key importance that fiscal, monetary and structural policies work together. A sound combination of economic policies requires considering the growth impacts of their interplay over the short and longer run. This encompasses the need to undertake structural changes to increase potential growth, including by improving the quality of public finances and enhancing its composition. Some Member States could for instance reprioritise the composition of their public finances, e.g. in favour of public investment, and seek to improve the growth-enhancing effects of their public spending. In addition, well-designed labour and product market reforms are important for strengthening sustainable growth, which can support public finance sustainability.

2.2.3. Assessing the fiscal stance derived from the stability programmes

The aggregation of the Member States plans presented in the stability programmes points to a slightly contractionary fiscal stance for the euro area in 2019. More precisely, the structural balance would improve by around 0.3% of GDP in the euro area (Graph 2.11), while the DFE shows a planned

improvement of 0.2 pps. (Table 3.1). This is overall consistent with the need to rebuild fiscal buffers in good economic times.

There is however a great deal of heterogeneity across Member States:

- For a majority of countries, the stability programmes are consistent with their sustainability needs, as depicted by S1 (Graph 2.12).⁽²⁹⁾ For some countries including Germany, and the Netherlands, the adjustment envisaged in their stability programmes is greater than implied by S1.
- By contrast, the fiscal consolidation envisaged in some Member States with significant sustainability needs, including Spain, France, Portugal and Belgium, would not be sufficient to ensure their S1-based sustainability target (Graph 2.12). It should be noted that, for France, Italy and to some extent Belgium, the fiscal adjustment projected at unchanged policy in the Commission 2018 spring forecast falls significantly short of the SCP targets for 2019.

⁽²⁹⁾ As measured by a reduction of the medium-term sustainability indicator S1 by 25%.

3. RISK ASSESSMENT OF MEMBER STATES' PLANS

This section analyses possible risks to the attainment of the aggregate budgetary targets set out in the 2018 SCPs. The assessment of risks is conducted differently for the sub-period 2018-2019 and the outer years of the programme horizon (2020-2021). The reason is that only the 2018-2019 period is covered by the Commission 2018 spring forecast, which provides a benchmark against which to assess the macro-economic and budgetary projections. Section 3.1 presents a comparison between the main fiscal variables for 2018 and 2019, as planned in the SCPs and as forecast by the Commission. A difference in projection points to risks, especially if plans are more favourable. The drivers of possible differences between the two are also discussed. Section 3.2 checks the feasibility and internal consistency of Member States' budgetary targets for 2020 and 2021.

3.1. RISKS TO 2018 AND 2019 PLANS

The 2018 headline balance targets are very close to the Commission forecast in aggregate terms, while there is more divergence in 2019. The difference between the planned headline balance targets and the Commission projections can be decomposed into three main components: a base effect, reflecting possible differences in the expected outcome in the previous year; a standardised measure of the 'growth gap' which measures the difference resulting from different nominal growth assumptions,⁽³⁰⁾ and a residual which includes the so-called 'policy gap' and which measures the difference in the assessment of budgetary measures underlying the projected fiscal targets.

The growth and inflation outlook are similar in 2018 and 2019 between the Commission forecast and the aggregated plans. This is shown in Table 3.1. The Commission projects slightly higher nominal GDP growth for the EU while projecting a slightly lower growth for the euro area. The impact of these differences in growth outlook on the aggregate headline balance is marginal. In most Member States, the programmes are based on independently produced or endorsed macroeconomic forecasts (Box 3.1 for details).

All in all, risks to the 2018 headline targets seem limited, with the Commission forecast even being slightly more favourable. On the aggregate, differences between Commission projections and the aggregate targets are negligible (Graph 3.1). Only in the case of RO and ES, the targeted headline deficit is more than 0.2 pp. of GDP smaller than in the Commission forecast, mostly related to a 'policy gap'. On the other hand, the Commission view is significantly more favourable in the case of HR, PL, DK, BG, DE and CY.

In turn, Member States fiscal plans are significantly more favourable than the Commission forecast for 2019. For both the EU and the euro area, Member States expect the aggregate headline deficit to be lower than according to the Commission forecast, by 0.2 pp. of GDP and 0.3 pp. of GDP respectively (Graph 3.2). The Commission forecast expects the expenditure ratio to decline less than planned, while the revenue ratio is planned to decline more than planned. The different starting point ('base effect') and the difference in macro-economic assumptions ('growth gap') are very limited in aggregate terms. The SCPs entail on average more important fiscal adjustment which would ceteris paribus be expected to result in a somewhat more prudent growth forecast compared to the Commission forecast.

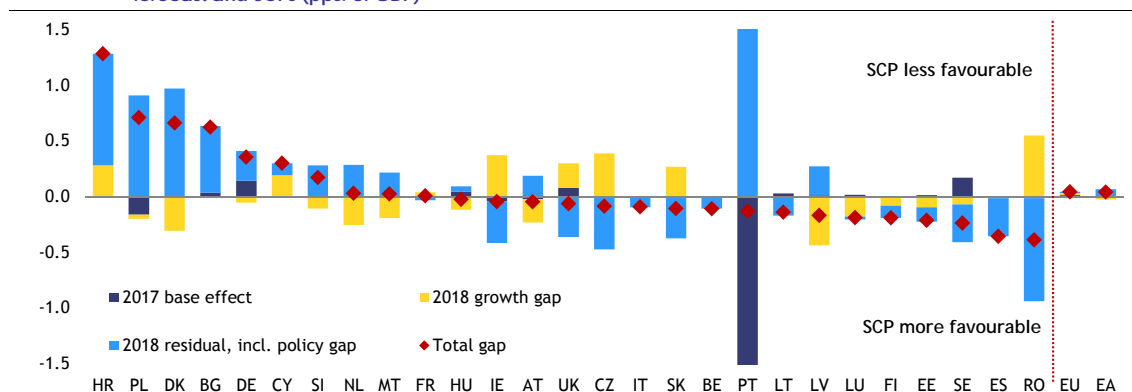
⁽³⁰⁾ Different nominal growth forecast for a given year can result in different forecast for the headline balance. The OECD standard semi-elasticities are used to approximate the effect of different nominal growth assumptions on headline balance prospects.

Table 3.1: GDP growth and main fiscal variables in 2018 SCPs and Commission forecast

		2017	2018		2019	
		Outcome (COM)	Commission forecast	2018 SCPs	Commission forecast	2018 SCPs
EU	Real GDP growth (%)	2.5	2.4	2.4	2.1	2.1
euro area		2.4	2.4	2.4	2.0	2.1
EU	GDP deflator (% change)	1.4	1.6	1.5	1.8	1.7
euro area		1.1	1.5	1.5	1.6	1.7
EU	Headline balance (% GDP)	-1.0	-0.8	-0.9	-0.8	-0.6
euro area		-0.9	-0.7	-0.7	-0.6	-0.3
EU	Primary expenditure (% GDP)	43.8	43.5	43.3	43.2	42.7
euro area		45.1	44.8	44.8	44.3	44.2
EU	Interest expenditure (% GDP)	2.0	1.8	1.8	1.8	1.8
euro area		1.9	1.8	1.8	1.7	1.8
EU	Total revenue (% GDP)	44.7	44.5	44.2	44.1	44.0
euro area		46.1	45.9	45.9	45.4	45.6
EU	Change in the structural balance (% potential GDP)	0.3	-0.2	-0.1	-0.2	0.3
euro area		0.3	-0.2	-0.2	-0.3	0.3
EU	Discretionary fiscal effort (% GDP)	-0.1	-0.3	-0.3	-0.2	0.2
euro area		-0.1	-0.4	-0.3	-0.4	0.2

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

Graph 3.1: General government balance for 2018: decomposition of the gap between the Commission 2018 spring forecast and SCPs (pps. of GDP)



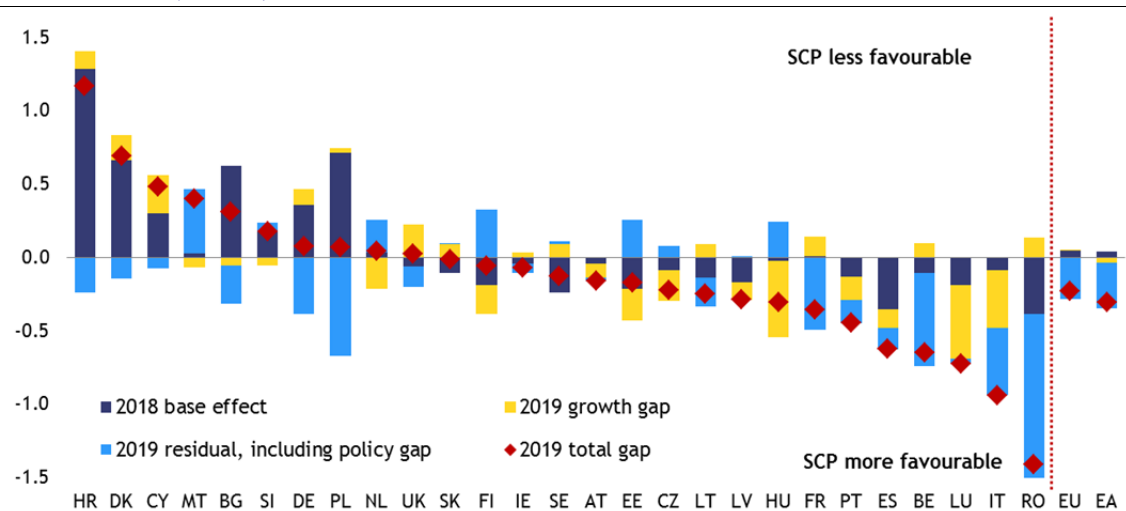
Note: The graph shows a decomposition of the difference between the deficit figure in 2018, as per the SCPs and Commission forecast into (i) base effect, (ii) difference in a standardised measure of the growth gap and (iii) a residual. The growth gap is calculated multiplying the difference in nominal growth assumptions times the standard OECD semi-elasticities. The residual includes the so-called 'policy gap', i.e. the difference in the evaluation of budgetary measures. It also includes possible differences in revenue elasticities or interest payments. Values below zero imply that the component has a deficit reducing effect in the SCPs relative to the Commission 2018 spring forecast, while values above zero indicate that the component increases the SCPs deficit relative to the Commission forecast. The sum of the components is the difference between the COM headline balance forecast and the SCP headline balance forecast.

For Portugal, the Stability Programme differs from Eurostat's binding validation of the 2017 deficit which fixes the deficit at 3.0% of GDP. It shows instead a general government deficit of 0.9% of GDP while acknowledging that according to the 1st EDP notification the impact of the recapitalisation of Caixa General de Depósitos would bring the 2017 deficit to 3.0% of GDP.

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

The difference between the Commission projections and Member States targets for 2019 is mostly related to the assessment of the future budgetary measures ('policy gap'). In terms of structural change, plans for 2019 are about ½ % of GDP more favourable than the Commission forecast. This gap might be explained by the fact that the Commission forecast is made under an unchanged policy assumption.⁽³¹⁾ This implies that it only takes measures into consideration that are deemed sufficiently well specified and credibly announced. SCPs were in many cases only available after the cut-off date for the Commission 2018 spring forecast or contain targets which are not yet underpinned by measures. The programmes are particularly more favourable in the case of RO, IT, BE, ES, PT, FR, all Member States with relatively high debt levels and/or deficits.⁽³²⁾ This is mostly related to the policy gap but in the case of IT and PT also the more optimistic growth assumptions of the programme explain part of the gap. More optimistic growth assumptions can also explain the better headline balances in the programmes of HU and LU. On aggregate, different assumptions for interest expenditure do not contribute to the growing policy gap in 2019. At Member State level, only HR includes substantially lower interest expenditure in 2019 than projected in the Commission forecast, assuming a lower implicit interest rate on the outstanding debt.

Graph 3.2: General government deficit for 2019: decomposition of the gap between Commission 2018 spring forecast and SCPs (% of GDP)



Note: The graph shows a decomposition of the difference between the headline balance in 2018, as per the SCPs and Commission forecast into (i) base effect, (ii) difference in a standardised measure of the growth gap and (iii) a residual. The growth gap is calculated multiplying the difference in nominal growth assumptions times the standard OECD semi-elasticities. The residual includes the so-called 'policy gap', i.e. the difference in the evaluation of budgetary measures. It also includes possible differences in revenue elasticities or interest payments. Values below zero imply that the component has a positive impact on the headline balance in the SCPs relative to the Commission 2018 spring forecast, while values above zero indicate that the component has a negative impact in the SCPs relative to the Commission forecast. The sum of the components is the difference between the COM headline balance forecast and the SCP headline balance forecast. In the case of Italy, the 'policy gap' and the 'growth gap' are affected by impact of the legislated VAT hike (also implying a higher GDP deflator growth in the SP), while this impact is not incorporated in the Commission forecast.

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

⁽³¹⁾ The 'no-policy change' assumption implies the extrapolation of revenue and expenditure trends and the inclusion of only those measures that are known in sufficient detail.

⁽³²⁾ In the Italian case, the difference reflects the no-policy change scenario underlying the SCP which includes already legislated VAT increases that are not included in the Commission forecast.

Box 3.1: Independent production or endorsement of the macroeconomic forecasts underpinning the 2018 Stability and Convergence Programmes

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

Out of the 18 spring 2018 stability programmes, five (AT, BE, LU, NL and SI) relied on macroeconomic forecasts prepared by external independent producers. In FI, a special mechanism is in place, ensuring that the macroeconomic forecast is produced independently within the Ministry of Finance by the Economics Department which is operationally independent from the Budget Department.

In 11 Member States (CY, EE, ES, IE, IT, FR, LV, LT, MT, PT and SK), the official macroeconomic scenario was produced by the government and subsequently endorsed by an independent fiscal institution. In most of the cases, the independent bodies pointed to broadly-balanced risks to the macroeconomic projections in the short-term, while highlighting increasing downside risks for the outer years in the programme horizon. For IT, as the stability programme was prepared on the assumption of unchanged legislation, the endorsement concerned the 'trend scenario' for macroeconomic developments.

In DE, there is still not in place an independent body in charge of producing or endorsing the official macroeconomic scenario underlying the 2018 stability programme, which is based on the federal government's macroeconomic forecast published in January 2018. To address this shortcoming, the authorities recently enacted a law on the preparation of the federal government's macroeconomic forecasts (*Vorausschätzungsgesetz*) together with a related ordinance. This law designates the Joint Economic Forecast Project Team, comprising leading economic research institutions, as the independent body for endorsing the government's macroeconomic scenarios underlying fiscal planning. It will for the first time be tasked to deal with the official macroeconomic forecast in autumn 2018.

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

3.2. RISKS TO 2020 AND 2021 PLANS

On the revenue side, risks to the achievement of the later years' fiscal targets can stem from the plausibility of budgetary projections at unchanged policy, and from the size of the implied fiscal measures. The outer years of the programme period are not covered by a Commission forecast that can serve as a benchmark. The fiscal path of the programmes, even if based on realistic macroeconomic assumptions, may be unrealistic if it starts from an overly optimistic baseline at unchanged policy. Second, targets may be unachievable if their achievement implicitly requires a (too) large amount of additional discretionary measures. Thus, the evaluation of risks in the later years of the programmes also focuses on the comparison between the fiscal targets as declared by national authorities and their no-policy change projections. This subsection focuses mainly on the revenue side. The SCPs contain more information on the revenue side due to more detailed reporting requirement.⁽³³⁾

⁽³³⁾ The submission of no-policy change revenue projections has been agreed upon by all Member States according to the code of conduct of the Stability and Growth Pact. Conversely, the submission of no-policy change expenditure projections remains voluntary. http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

Overall, the revenue projections at unchanged policy seem prudent. Most Member States include some revenue shortfalls over 2020-2021 in their unchanged policy projections, as shown in Table 3.2, column (v).⁽³⁴⁾ The difference between the unchanged policy projections and the revenue targets indicate the amount of revenue measure that needs to be taken to implement the programme. With the exception of MT and BE, the amounts are relatively limited or negative (i.e. tax cuts).

On the expenditure side, some Member States count on further interest windfalls. On aggregate, interest expenditure is expected to decline to 1.8% of GDP in 2018 but it is not expected to drop further in 2020-2021. However, BE, IE, LT, MT, AT, PT, SI, HU and especially HR still count on significant savings from lower interest expenditure in the outer years of the programme. On the other hand, FR, CZ and DK expect an increase in 2020-2021. The implicit interest rate on the outstanding debt stock is expected to slightly increase between 2019 and 2021, from 2.2% in the EU (2.1% in the euro area) in 2019 to 2.3% in 2021 (2.2% in the euro area). On aggregate, primary expenditure is planned to grow at a slower pace than the medium term growth rate of potential GDP (which is estimated at 1.6% in the EU and 1.4% in the euro area). Most Member States plan a growth rate of primary expenditure which is lower than primary expenditure growth in recent years.

⁽³⁴⁾ The figures in this table should however be interpreted with care, as some Member States might have included the impact measures already decided in their no-policy-change revenue projections. In such a case, apparent revenue shortfalls might in fact result from tax cuts already decided while revenue windfalls might result from tax increases that have already been decided. However, this distortion is likely to be limited for the outer years of the programmes.

Table 3.2: Implicit amount of revenue measures and revenue windfalls for 2020 and 2021 (% of GDP)

	Targeted change in revenue ratio						Reported impact of Discretionary Revenue Measures		Annual revenue windfalls (+) / shortfalls (-) implicit in the 2018 SCPs	
	<i>of which:</i>									
	Change in revenue ratio at unchanged policy				Implied annual measures					
	(I)		(II)		(III)=(I)-(II)		(IV)		(V)	
pp GDP	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
BE	0.3	0.0	0.0	0.1	0.3	0.0	0.0	0.0	0.0	0.1
CY	-0.6	-0.7	-0.6	-0.7	0.0	0.0	0.0	0.0	-0.6	-0.7
DE	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1
EE	-0.7	-0.9	-0.5	-0.8	-0.2	-0.1	0.0	0.0	-0.5	-0.8
IE	-0.3	-0.1	-0.4	0.0	0.1	-0.1	0.0	0.0	-0.4	0.0
ES	0.1	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
FR	-0.2	-0.2	0.1	-0.1	-0.3	-0.1	-0.1	0.0	0.1	-0.1
IT	-0.1	-0.2	0.0	-0.2	-0.1	0.0	0.4	0.0	0.0	-0.2
LV	0.3	-1.1	0.3	-1.1	0.0	0.0	-0.2	0.0	0.3	-1.1
LT	0.0	-0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	-0.1
LU	0.2	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.2	0.1
MT	-0.4	-0.2	-0.6	-0.4	0.2	0.2	0.1	0.1	-0.6	-0.4
NL	-0.3	-0.3	-0.3	-0.3	0.0	0.0	-0.4	-0.3	-0.3	-0.3
AT	-0.1	-0.3	-0.1	0.0	-0.1	-0.3	-0.3	-0.6	-0.1	0.0
PT	0.0	0.3	-0.1	0.3	0.1	0.0	0.0	0.4	-0.1	0.3
SI	-0.9	-1.0	-0.9	-1.0	0.0	0.0	0.0	0.0	-0.9	-1.0
SK	0.3	-0.8	0.3	-0.9	0.0	0.0	-0.1	-0.2	0.3	-0.9
FI	0.0	-0.1	0.0	-0.1	0.0	0.0	-0.2	-0.2	0.0	-0.1
BG	-0.5	-0.3	-0.6	-0.3	0.1	0.0	0.4	0.5	-0.6	-0.3
CZ	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1
DK	-0.4	-0.3	-0.1	-0.2	-0.3	0.0	-0.3	-0.1	-0.1	-0.2
HR	-0.2	-0.4	-0.2	-0.4	0.0	0.0	0.0	0.0	-0.2	-0.4
HU	-2.2	-1.9	-2.2	-1.9	0.0	0.0	-0.4	-0.6	-2.2	-1.9
RO	0.3	0.2	0.3	0.2	0.0	0.0	0.0	0.0	0.3	0.2
PL	-0.4	-0.7	-0.4	-0.5	0.0	-0.2	0.2	0.0	-0.4	-0.5
SE	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
UK	-0.1	-0.3	-0.2	-0.2	0.1	-0.1	-0.1	-0.1	-0.2	-0.2
EU	-0.1	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1
EA	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1

Note: Windfalls/shortfalls in column (v) are approximated by comparing the no policy change revenue projections with a simplified calculation based on standard semi-elasticities. The latter starts from the 2019 revenue projections in the SCPs, net of one-offs, and projects future revenue developments based on the SCP forecast for growth, the output gap and OECD standard semi-elasticities.

Source: European Commission based on 2018 SCPs.

4. SUSTAINABILITY

The sustainability of public finances across Member States, against the background of revised macroeconomic scenario, fiscal outlook, fiscal plans and the demographic ageing is analysed in this section. The analysis presented here takes therefore as a point of departure the latest Commission 2018 spring forecasts and the 2018 Stability and Convergence Programmes. The long-term budgetary projections released with the 2018 Ageing Report have also been incorporated in the simulations.⁽³⁵⁾

Box 4.1: The Commission approach to assess fiscal sustainability

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

- *Short-term fiscal challenges*, through a combination of fiscal, financial and competitiveness indicators aiming at an 'early detection of fiscal stress'. The S0 indicator is an 'early-detection indicator', designed to highlight shorter-term (one-year horizon) risks of fiscal stress stemming from the fiscal, as well as the financial and competitiveness sides of the economy. A whole set of fiscal and financial-competitiveness variables are used in the composite indicator S0. No country is currently found to face short-risks of fiscal stress (Table 5.1); therefore, the rest of the analysis in this section focuses on medium- and long-term fiscal challenges. ⁽¹⁾
- *Medium-term fiscal challenges*, by looking at the risks to fiscal sustainability over the medium run, based on debt sustainability analysis (DSA) and the S1 sustainability indicator, in line with the Debt Sustainability Monitor 2017. ⁽²⁾ The S1 indicator shows the fiscal gap related to the excess of projected government expenditure, including projected age-related expenditure, over projected revenue together with any gap with respect to the steady adjustment in the structural primary balance over the five years after the period covered by the forecast, to bring the debt-to-GDP ratio to 60% of GDP by 2032.
- *Long-term fiscal challenges*, through the S2 indicator, which shows the fiscal gap related to the excess of projected government expenditure, including projected age-related expenditure over projected revenue together with any gap with respect to the primary balance needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path over an infinite horizon.

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

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

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

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

- The **COM no-policy-change scenario**, with the structural primary balance to GDP ratio kept constant at 2019 forecasted level as in the Commission 2018 spring forecast (reflecting a "no-policy-change" assumption);

⁽³⁵⁾ European Commission (DG ECFIN) and Economic Policy Committee (AWG) (2018), "The 2018 Ageing Report: Economic and budgetary projections for the 28 EU Member States (2016-2070)", *European Economy, Institutional Paper, forthcoming*.

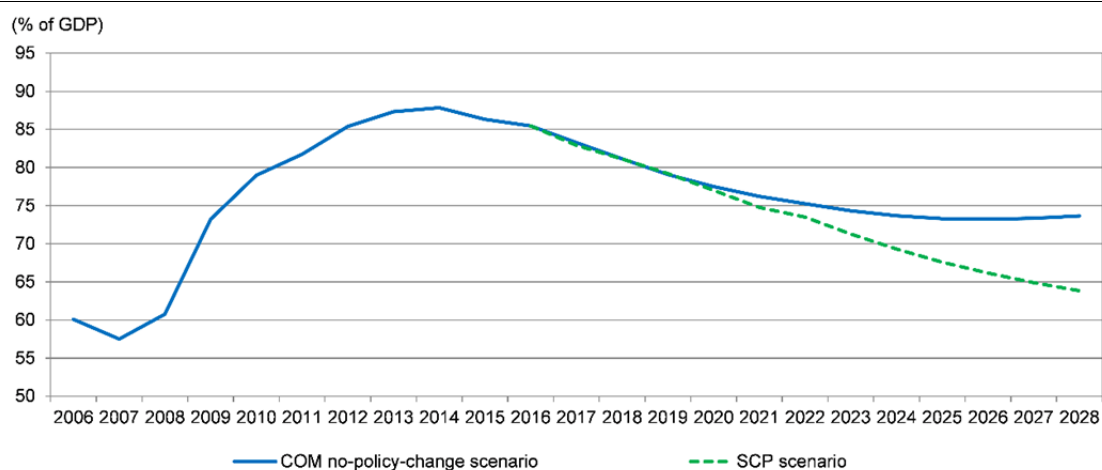
- The **SCP scenario** reflecting planned changes in fiscal policies as reported in the SCPs (fully in line with SCPs until the end of the programme horizon). Beyond the programme horizon, structural primary balance as a share of GDP is kept constant.

Graph 4.1 shows the projected evolution for the government gross debt ratio (including the projected change in age-related expenditure), for the EU as a whole. The solid thick line shows the outcome for this scenario under the assumption of no fiscal consolidation measures beyond those contained in the Commission 2018 spring forecast (structural primary balance to GDP ratio kept constant at forecasted 2019 level) and incorporates expected future age-related spending, as projected in the 2018 Ageing Report. ⁽³⁶⁾

Government debt is expected to decrease until 2019 and beyond. According to the Commission 2018 spring forecast, government debt will continue to decrease and reach around 79% of GDP in 2019 in the EU as a whole. Given the sustained fiscal surplus until 2019 and the still negative snow-ball effects until the mid-2020s, debt is projected to continue to decline in the following years. Moreover, the cost of ageing as a share of GDP is projected to rise only slowly in the years to the mid-2020s. By the end of the projection horizon, debt would reach less than 74% of GDP in this scenario.

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 pps. of GDP between debt ratios in 2028). Indeed, the SCP scenario would lead to a more marked reduction in the government debt-to-GDP ratio with debt falling to less than 64% of GDP by 2028 (dashed line).

Graph 4.1: Medium-term government debt projections for the EU-28 (in % of GDP)



Note: The medium-term projections are based on the Commission 2018 spring forecast (up to 2019) and on the 2018 Stability and Convergence Programmes, the updated t+10 projections and the projections in the 2018 Ageing Report. The output gap is assumed to close in t+5. The inflation rate (GDP deflator) is assumed to converge linearly to 2% in t+5, when the output gap is closed and remains constant thereafter, for all countries. The long-term interest rate on new and rolled over debt is assumed to converge to 5% (in nominal terms) by the end of the 10-year projection horizon, based on the AWG-EPC agreed assumption, while the short-term interest rate on new and rolled over debt converges to an end of projection value that is consistent with the 5% long-term interest rate and the value of the historical (pre-crisis) euro area yield curve (0.83). The structural primary balance is kept unchanged after either the end forecast or the end programme year, apart from the projected change in age-related expenditure according to the AWG reference scenario from the 2018 Ageing Report. The primary balance is adjusted by using the budget sensitivities in the period until the output gap is assumed to be closed in t+5. No stock-flow adjustment is assumed after the end of forecast or programme horizon.

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

⁽³⁶⁾ 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.

4.2. MEDIUM-TERM FISCAL SUSTAINABILITY CHALLENGES

Developments in the Commission no-policy-change scenario

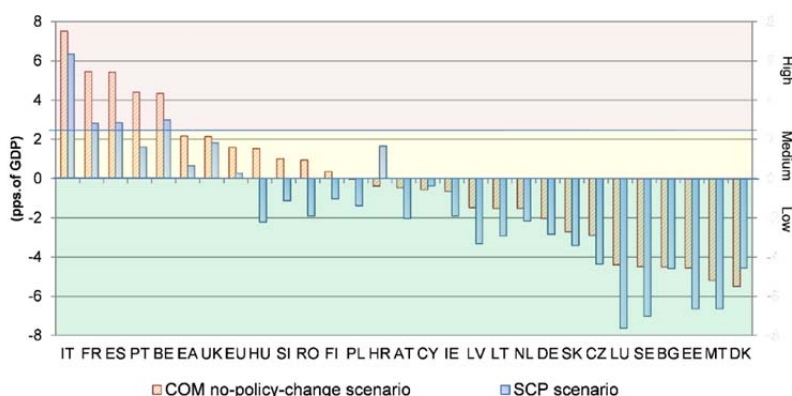
The adjustment needed in the medium-term with respect to unchanged policies is calculated as the additional fiscal adjustment required up to five years ahead, in order to reach a debt-to-GDP ratio at 60% by 2032 (Graph 4.2).⁽³⁷⁾ The improvement relative to the COM no-policy-change scenario required in the structural primary balance to achieve a debt-to-GDP ratio target of 60% by 2032 amounts to 1.6 pps. of GDP over the period 2020–2024 in the EU as a whole, i.e., an average annual fiscal consolidation effort of around 0.3 pp. per year. In other words, the structural primary balance in the EU has to improve from a forecasted surplus of 0.6% of GDP in 2019 (structural balance of -1.2% in 2019) to a surplus of close to 2.3% in 2024.

According to the S1 indicator, 5 countries face *high risk* (BE, ES, FR, IT and PT), 5 countries face *medium risk* (HU, RO, SI, FI and UK), and 17 countries face *low risk over the medium-term*. For the majority of Member States, the overall medium-term risk classification coincides with classification based on the S1 indicator. However, for some countries (HR, CY, HU and UK) it becomes one step higher, with the debt sustainability analysis pointing to additional risks (Table 4.1).⁽³⁸⁾

Developments assuming implementation of the fiscal plans in the SCPs

If the fiscal plans in the SCPs were fully implemented and additionally not weakened after the end of the programme horizon, the fiscal gap would be reduced to around one fifth of the gap (0.3% of GDP instead of 1.6%) in the no-policy-change scenario. Consequently, risks would be reduced and according to the S1 indicator, 4 countries would face *high risk*, 3 countries would face *medium risk* and 20 countries would face *low risk*. In the SCP scenario, 5 Member States would go to a lower risk category (HU, RO, SI and FI from *medium* to *low risk*; PT from *high* to *medium risk*). Only in the cases of HR, DK and CY, the S1 indicator, based on the SCPs, would reach a higher value than based on the Commission no-policy-change scenario, mainly as the result of the assumed lower structural primary surplus. This would lead to an unfavourable change in the risk category only in the case of HR (from *low* to *medium risk*).

Graph 4.2: The S1 indicator (fiscal adjustment required to reach a 60% public debt to GDP ratio by 2032, in pps. of GDP)



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

⁽³⁷⁾ The base year is either the end of the forecast horizon (2019) or the end of the Stability and Convergence Programme horizon (country specific, with values between 2021 and 2022), depending on the scenario considered.

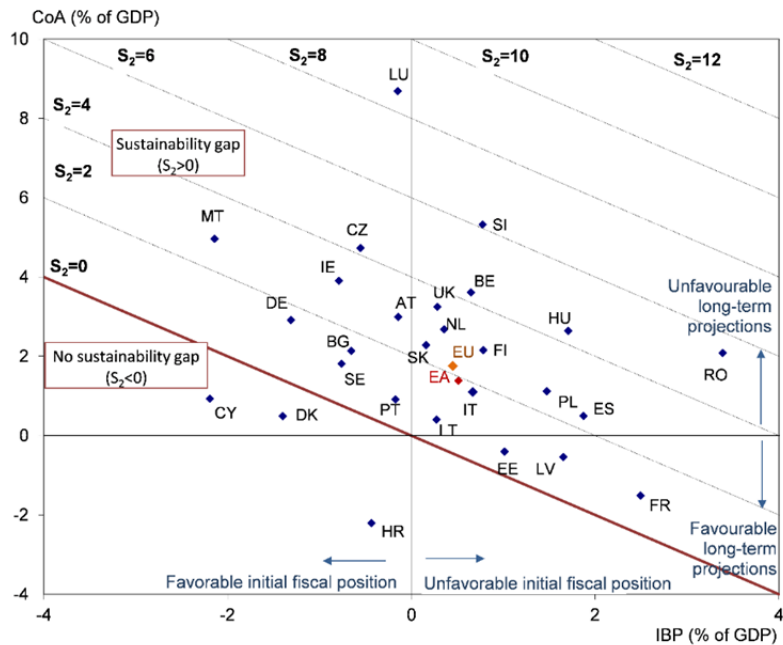
⁽³⁸⁾ For details about the sustainability risk classification and the methodology behind the Debt Sustainability Analysis (DSA), see European Commission (2018), Debt Sustainability Monitor 2017, *European Economy, Institutional papers*, No 71, EC, Brussels.

4.3. LONG-TERM FISCAL CHALLENGES

Developments in the Commission no-policy-change scenario

In the long term, the sustainability of the fiscal position is assessed by the gap relative to the primary balance required to stabilise debt at the current level and cover all the future changes in age-related expenditures. Graph 4.3 shows the S_2 sustainability indicator according to the COM no-policy-change scenario. It shows the initial budgetary position (IBP) on the horizontal axis and the long-term change in the fiscal position due to cost of ageing (CoA) on the vertical axis. A position to the left indicates a favourable IBP (i.e. if it is below zero, it means that the budgetary position supports fiscal sustainability). A position towards the bottom of the axis indicates a low long-term 'cost of ageing'. For a significant number of countries (12 Member States) both the CoA and the IBP components contribute to the fiscal gap. Finally, the diagonal lines indicate the size of the sustainability gap. Among the Member States, 2 countries (LU and SI) face *high* risk, 13 countries (BE, CZ, IE, ES, HU, MT, NL, AT, PL, RO, SK, FI and UK) face *medium* risk and 12 countries face *low* risk over the long-term. Overall, the EU as a whole has a sustainability gap of 2.2 pps. of GDP. The cost of ageing (CoA), based on the 2018 Ageing Report projections, contributes by 1.8 pps. of GDP to the gap, and the initial budgetary position (IBP) by 0.5 pps. of GDP.

Graph 4.3: The S_2 sustainability gap decomposed (in pps. of GDP)



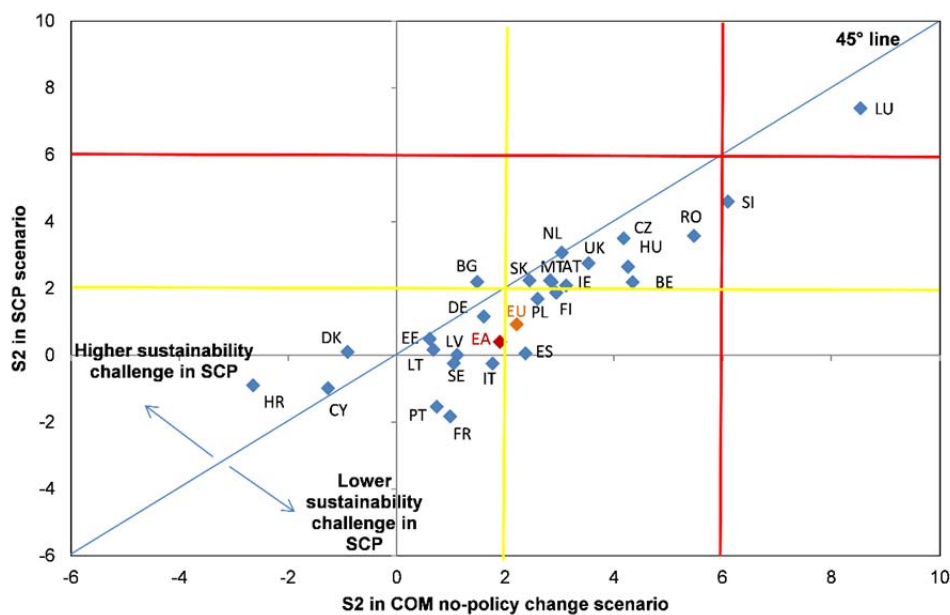
Source: European Commission based on Commission 2018 spring forecast and 2018 SCPs.

Developments assuming implementation of the fiscal plans in the SCPs

Even assuming the full implementation of the fiscal plans in the SCPs, 13 Member States would still face significant sustainability gaps. Graph 4.4 shows the S_2 indicator with two different starting points: (i) the COM no-policy-change scenario and (ii) the SCP scenario. The SCP scenario shows the extent to which the implementation of the fiscal consolidation plans would contribute to ensuring fiscal sustainability. Under the assumption that the fiscal plans in the programmes are fully implemented, a large majority of Member States are expected to have a lower sustainability gap (as shown by a position below the 45° degrees line in the graph). In the EU as a whole, the S_2 fiscal gap would reach 0.9 pps. of GDP, i.e. less than one half of the gap in the COM no-policy-change scenario. Even assuming the full

implementation of the fiscal plans in the SCPs, 13 Member States would still have sustainability gaps of at least 2 pps. of GDP. In terms of risk classification, in the SCP scenario, 4 Member States would go to a lower risk category (ES, PL and FI from *medium* to *low* risk and SI from *high* to *medium* risk). Only in the cases of HR, DK, BG and CY, the S2 indicator, based on the SCPs, would reach a higher value than based on the Commission no-policy-change scenario, mainly as the result of the assumed lower structural primary surplus. This would lead to an unfavourable change in the risk category only in the case of BG (from *low* to *medium* risk).

Graph 4.4: The S2 sustainability gap: 'COM no-policy-change' and 'SCP' scenarios (in pps. of GDP)



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

Table 4.1: Overall risk classification in the 2018 assessment round, COM no-policy-change scenario

	S0 Overall SHORT-TERM risk category	Debt sustainability analysis - overall risk assessment	S1 indicator - overall risk assessment	Overall MEDIUM-TERM risk category	S2 Overall LONG-TERM risk category
BE	LOW (0.3)	HIGH	HIGH (4.3)	HIGH	MEDIUM (4.3)
BG	LOW (0.3)	LOW	LOW (-4.5)	LOW	LOW (1.5)
CZ	LOW (0.2)	LOW	LOW (-2.9)	LOW	MEDIUM (4.2)
DK	LOW (0.2)	LOW	LOW (-5.5)	LOW	LOW (-0.9)
DE	LOW (0)	LOW	LOW (-2)	LOW	LOW (1.6)
EE	LOW (0.2)	LOW	LOW (-4.6)	LOW	LOW (0.6)
IE	LOW (0.3)	LOW	LOW (-0.7)	LOW	MEDIUM (3.1)
ES	LOW (0.4)	HIGH	HIGH (5.4)	HIGH	MEDIUM (2.4)
FR	LOW (0.2)	HIGH	HIGH (5.5)	HIGH	LOW (1)
HR	LOW (0.2)	MEDIUM	LOW (-0.4)	MEDIUM	LOW (-2.6)
IT	LOW (0.4)	HIGH	HIGH (7.5)	HIGH	LOW (1.8)
CY	LOW (0.4)	MEDIUM	LOW (-0.6)	MEDIUM	LOW (-1.3)
LV	LOW (0.2)	LOW	LOW (-1.5)	LOW	LOW (1.1)
LT	LOW (0.2)	LOW	LOW (-1.5)	LOW	LOW (0.7)
LU	LOW (0.1)	LOW	LOW (-4.4)	LOW	HIGH (8.5)
HU	LOW (0.4)	HIGH	MEDIUM (1.5)	HIGH	MEDIUM (4.4)
MT	LOW (0)	LOW	LOW (-5.2)	LOW	MEDIUM (2.8)
NL	LOW (0.1)	LOW	LOW (-1.5)	LOW	MEDIUM (3)
AT	LOW (0.1)	LOW	LOW (-0.5)	LOW	MEDIUM (2.9)
PL	LOW (0.2)	LOW	LOW (0)	LOW	MEDIUM (2.6)
PT	LOW (0.4)	HIGH	HIGH (4.4)	HIGH	LOW (0.7)
RO	LOW (0.2)	MEDIUM	MEDIUM (0.9)	MEDIUM	MEDIUM (5.5)
SI	LOW (0.1)	MEDIUM	MEDIUM (1)	MEDIUM	HIGH (6.1)
SK	LOW (0.3)	LOW	LOW (-2.7)	LOW	MEDIUM (2.4)
FI	LOW (0.1)	MEDIUM	MEDIUM (0.4)	MEDIUM	MEDIUM (2.9)
SE	LOW (0.1)	LOW	LOW (-4.5)	LOW	LOW (1.1)
UK	LOW (0.4)	HIGH	MEDIUM (2.1)	HIGH	MEDIUM (3.5)
EU	:	:	(1.6)	:	(2.2)
EA	:	:	(2.2)	:	(1.9)

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

The S1 indicator: The following thresholds for the S1 indicator are used:

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

The Debt Sustainability Analysis (DSA): a range of factors (such as debt levels, debt paths, alternative underlying assumptions, stochastic projections) are used for the risk classification. For details about the sustainability risk classification and the methodology behind the Debt Sustainability Analysis (DSA), see European Commission (2018), Debt Sustainability Monitor 2017, European Economy, Institutional papers, No 71, EC, Brussels.

The S2 indicator: The following thresholds for the S2 indicator are used:

- if the value of S2 is lower than 2, the country is assigned low risk.
- if it is between 2 and 6, it is assigned medium risk.
- if it is greater than 6, it is assigned high risk.

Source: European Commission based on Commission 2018 spring forecast.

STATISTICAL ANNEX

Table A.1: Real GDP growth (%)

	2018 stability and convergence programmes						Commission spring 2018 forecast				Difference compared to forecast (red means higher in programme)		
	2017	2018	2019	2020	2021	2022	2016	2017	2018	2019	2017	2018	2019
BE	1.7	1.8	1.7	1.5	1.4	n.a.	1.5	1.7	1.8	1.7	0.0	0.0	0.0
CY	3.9	3.8	3.6	3.2	3.0	n.a.	3.4	3.9	3.6	3.3	0.0	0.2	0.2
DE	2 1/4	2 1/4	1 3/4	1 1/4	1 1/4	1 1/4	1.9	2.2	2.3	2.1	0.0	0.0	-0.2
EE	4.9	4.0	3.2	3.0	2.9	2.9	2.1	4.9	3.7	2.8	0.0	0.3	0.4
IE	7.8	5.6	4.0	3.4	2.8	n.a.	5.1	7.8	5.7	4.1	0.0	-0.1	0.0
ES	3.1	2.7	2.4	2.3	2.3	n.a.	3.3	3.1	2.9	2.4	0.0	-0.2	0.1
FR	1.8	2.0	1.9	1.7	1.7	1.7	1.2	1.8	2.0	1.8	0.0	0.0	0.1
IT	1.5	1.5	1.4	1.3	1.2	n.a.	0.9	1.5	1.5	1.2	0.0	0.0	0.2
LV	4.5	4.0	3.4	3.0	2.9	n.a.	2.2	4.5	3.3	3.3	0.0	0.7	0.1
LT	3.8	3.2	2.8	2.5	2.5	n.a.	2.3	3.8	3.1	2.7	0.0	0.1	0.1
LU	2.3	4.6	4.6	4.2	3.6	2.9	3.1	2.3	3.7	3.5	0.0	0.9	1.1
MT	6.6	6.1	5.3	4.8	4.6	n.a.	5.5	6.6	5.8	5.1	0.0	0.3	0.1
NL	3.2	3.2	2.7	1.5	1.5	n.a.	2.2	3.2	3.0	2.6	0.0	0.2	0.1
AT	2.9	3.2	2.2	1.9	1.6	1.5	1.5	2.9	2.8	2.2	0.0	0.4	0.0
PT	2.7	2.3	2.3	2.3	2.2	2.1	1.6	2.7	2.3	2.0	0.0	0.0	0.3
SI	5.0	5.1	3.8	3.2	3.0	n.a.	3.1	5.0	4.7	3.6	0.0	0.4	0.2
SK	3.4	4.2	4.5	3.9	3.4	n.a.	3.3	3.4	4.0	4.2	0.0	0.2	0.3
FI	2.6	2.6	2.2	1.8	1.3	n.a.	2.1	2.6	2.5	2.3	0.0	0.1	0.0
EA (ex. EL)	2.4	2.4	2.1	1.7	1.6	n.a.	1.8	2.4	2.4	2.0	0.0	0.0	0.0
BG	3.6	3.9	3.8	3.7	3.7	n.a.	3.9	3.6	3.8	3.7	0.0	0.1	0.1
CZ	4.4	3.6	3.3	2.6	2.4	n.a.	2.6	4.4	3.4	3.1	0.0	0.3	0.2
DK	2.2	1.9	1.7	1.6	1.6	n.a.	2.0	2.2	1.8	1.9	0.0	0.1	-0.2
HR	2.8	2.8	2.7	2.5	2.5	n.a.	3.2	2.8	2.8	2.7	0.0	-0.1	0.0
HU	4.0	4.3	4.1	4.0	4.2	4.1	2.2	4.0	4.0	3.2	0.0	0.3	0.9
RO	6.9	6.1	5.7	5.7	5.0	n.a.	4.8	6.9	4.5	3.9	0.0	1.6	1.8
PL	4.6	3.8	3.8	3.7	3.6	n.a.	3.0	4.6	4.3	3.7	0.0	-0.5	0.1
SE	2.4	2.8	2.2	2.1	1.8	n.a.	3.2	2.4	2.6	2.0	0.0	0.2	0.2
UK	1.7	1.5	1.3	1.3	1.4	1.5	2.0	1.6	1.5	1.2	0.1	0.0	0.0
EU (ex. EL)	2.5	2.4	2.1	1.8	1.7	n.a.	2.0	2.4	2.3	2.0	0.0	0.1	0.1

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

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

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

	2018 stability and convergence programmes						Commission spring 2018 forecast				Difference compared to forecast (red means higher in programme)		
	2017	2018	2019	2020	2021	2022	2016	2017	2018	2019	2017	2018	2019
BE	-0.3	0.1	0.4	0.4	0.3	n.a.	-0.5	-0.2	0.1	0.4	-0.1	0.0	0.0
CY	0.4	2.0	2.8	3.1	3.4	n.a.	-1.5	0.7	2.3	3.3	-0.3	-0.3	-0.5
DE	0.2	0.6	0.7	0.3	0.0	-0.2	-0.2	0.0	0.4	0.6	0.1	0.2	0.1
EE	1.8	2.5	2.2	1.6	1.1	0.6	0.4	2.1	2.9	2.8	-0.2	-0.4	-0.6
IE	-0.5	0.8	0.5	0.0	-0.7	n.a.	0.3	-0.5	0.7	0.4	0.0	0.0	0.1
ES	-0.2	1.1	1.6	2.2	2.5	n.a.	-2.2	-0.2	1.4	2.3	0.0	-0.3	-0.7
FR	-0.7	0.1	0.6	1.0	1.4	2.0	-1.3	-0.7	0.1	0.6	0.0	0.0	0.0
IT	-1.2	-0.3	0.3	0.6	0.8	n.a.	-2.4	-1.2	-0.1	0.5	0.0	-0.2	-0.3
LV	1.8	2.2	1.6	0.7	0.0	n.a.	0.4	2.0	2.1	2.0	-0.2	0.0	-0.4
LT	2.7	2.3	1.3	0.4	-0.1	n.a.	1.3	2.6	2.7	2.2	0.0	-0.4	-0.8
LU	-1.1	0.3	1.3	1.8	1.6	0.8	-0.5	-0.7	0.3	0.9	-0.3	0.1	0.4
MT	1.4	1.1	0.1	-0.1	-0.4	n.a.	1.2	1.3	1.0	0.3	0.1	0.1	-0.2
NL	0.1	1.1	1.7	1.1	0.7	n.a.	-1.1	0.2	1.1	1.8	-0.1	0.0	-0.1
AT	-0.3	0.7	0.9	0.5	0.1	-0.3	-1.1	-0.2	0.6	0.7	-0.1	0.2	0.2
PT	0.1	0.5	0.5	0.6	0.8	0.8	-0.9	0.3	1.0	1.3	-0.2	-0.5	-0.8
SI	1.3	3.2	3.5	2.6	1.4	n.a.	-1.4	1.4	3.4	4.1	-0.1	-0.2	-0.6
SK	-0.4	0.2	0.7	0.7	0.6	n.a.	-0.5	0.0	0.6	1.2	-0.4	-0.4	-0.5
FI	-0.7	0.1	0.5	0.6	0.4	n.a.	-2.0	-0.7	0.3	1.0	0.1	-0.1	-0.4
EA (ex. EL)	-0.3	0.4	0.8	0.8	0.8	n.a.	-1.1	-0.3	0.5	0.9	0.0	0.0	-0.1
BG	-0.1	0.0	-0.2	0.1	0.6	n.a.	-0.3	0.1	0.4	0.5	-0.2	-0.3	-0.7
CZ	0.7	1.1	1.1	0.7	0.2	n.a.	-0.4	0.9	1.2	1.4	-0.2	-0.1	-0.2
DK	-0.7	-0.4	-0.3	-0.2	-0.1	n.a.	-1.3	-0.7	-0.7	-0.6	0.0	0.3	0.3
HR	0.7	2.3	3.1	3.8	4.7	n.a.	-0.7	0.9	2.3	3.1	-0.2	0.0	0.0
HU	1.4	1.7	1.5	1.1	0.8	0.4	0.3	1.6	2.4	2.3	-0.2	-0.8	-0.8
RO	-0.1	0.8	1.2	1.6	1.8	n.a.	-1.5	1.2	1.4	1.1	-1.3	-0.6	0.0
PL	0.9	1.1	1.1	1.1	1.1	n.a.	-0.6	0.7	1.5	1.5	0.2	-0.4	-0.4
SE	0.0	0.1	-0.1	-0.2	-0.6	n.a.	0.4	0.1	0.1	-0.3	-0.1	0.1	0.2
UK	0.8	0.7	0.4	0.1	-0.1	-0.2	0.7	0.8	0.6	0.3	0.0	0.1	0.0
EU (ex. EL)	-0.1	0.5	0.7	0.7	0.6	n.a.	-0.8	-0.1	0.5	0.8	0.0	0.0	-0.1

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

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

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

	2018 stability and convergence programmes						Commission spring 2018 forecast				Difference compared to forecast (red means higher in programme)		
	2017	2018	2019	2020	2021	2022	2016	2017	2018	2019	2017	2018	2019
BE	-1.0	-1.0	-0.7	0.0	0.1	n.a.	-2.5	-1.0	-1.1	-1.3	0.0	0.1	0.6
CY	1.8	1.7	1.7	1.8	1.9	n.a.	0.3	1.8	2.0	2.2	0.0	-0.3	-0.5
DE	1	1	1 1/4	1 2/4	1 2/4	n.a.	1.0	1.3	1.2	1.4	-0.1	-0.4	-0.1
EE	-0.3	0.2	0.5	0.4	0.2	0.1	-0.3	-0.3	0.0	0.3	0.0	0.2	0.2
IE	-0.3	-0.2	-0.1	0.3	0.4	n.a.	-0.5	-0.3	-0.2	-0.2	0.0	0.0	0.1
ES	-3.1	-2.2	-1.3	-0.5	0.1	n.a.	-4.5	-3.1	-2.6	-1.9	0.0	0.4	0.6
FR	-2.6	-2.3	-2.4	-0.9	-0.3	0.3	-3.4	-2.6	-2.3	-2.8	0.0	0.0	0.4
IT	-2.3	-1.6	-0.8	0.0	0.2	n.a.	-2.5	-2.3	-1.7	-1.7	0.0	0.1	0.9
LV	-0.5	-0.9	-0.9	-0.4	-0.4	n.a.	0.1	-0.5	-1.1	-1.2	0.0	0.2	0.3
LT	0.5	0.6	0.6	0.6	0.3	n.a.	0.3	0.5	0.5	0.3	0.0	0.1	0.3
LU	1.5	1.1	1.4	1.6	2.5	2.4	1.6	1.5	0.9	0.7	0.0	0.2	0.7
MT	3.9	1.1	0.9	0.9	1.6	n.a.	1.0	3.9	1.1	1.3	0.0	0.0	-0.4
NL	1.1	0.7	0.9	0.5	0.3	n.a.	0.4	1.1	0.7	0.9	0.0	0.0	0.0
AT	-0.7	-0.4	0.0	0.1	0.2	0.4	-1.6	-0.7	-0.5	-0.2	0.0	0.0	0.2
PT	-0.9	-0.7	-0.2	0.7	1.4	1.3	-2.0	-3.0	-0.9	-0.6	2.0	0.1	0.4
SI	0.0	0.4	0.2	0.6	0.9	n.a.	-1.9	0.0	0.5	0.4	0.0	-0.2	-0.2
SK	-1.0	-0.8	-0.3	0.0	0.0	n.a.	-2.2	-1.0	-0.9	-0.3	0.0	0.1	0.0
FI	-0.6	-0.6	-0.2	0.1	0.3	n.a.	-1.8	-0.6	-0.7	-0.2	0.0	0.2	0.1
EA (ex. EL)	-0.9	-0.7	-0.3	0.3	0.5	n.a.	-1.5	-0.9	-0.7	-0.6	0.0	0.0	0.3
BG	0.9	0.0	0.3	0.5	0.2	n.a.	0.2	0.9	0.6	0.6	0.0	-0.6	-0.3
CZ	1.6	1.5	1.1	1.0	0.9	n.a.	0.7	1.6	1.4	0.8	0.0	0.1	0.2
DK	1.0	-0.7	-0.7	-0.7	-0.6	n.a.	-0.4	1.0	-0.1	0.0	0.0	-0.7	-0.7
HR	0.8	-0.5	-0.4	0.0	0.5	n.a.	-0.9	0.8	0.7	0.8	0.0	-1.3	-1.2
HU	-2.0	-2.4	-1.8	-1.5	-1.2	-0.5	-1.7	-2.0	-2.4	-2.1	0.0	0.0	0.3
RO	-2.9	-3.0	-2.4	-1.8	-1.5	n.a.	-3.0	-2.9	-3.4	-3.8	0.0	0.4	1.4
PL	-1.5	-2.1	-1.5	-1.1	-0.7	n.a.	-2.3	-1.7	-1.4	-1.4	0.2	-0.7	-0.1
SE	1.1	1.0	1.0	1.3	1.9	n.a.	1.2	1.3	0.8	0.9	-0.2	0.2	0.1
UK	-2.2	-1.8	-1.7	-1.5	-1.4	-1.0	-2.4	-2.2	-1.8	-1.7	-0.1	0.1	0.0
EU (ex. EL)	-1.0	-0.9	-0.6	-0.1	0.2	n.a.	-1.6	-1.0	-0.8	-0.8	0.0	0.0	0.2

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

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

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

	2018 stability and convergence programmes						Commission spring 2018 forecast				Difference compared to forecast (red means higher in programme)		
	2017	2018	2019	2020	2021	2022	2016	2017	2018	2019	2017	2018	2019
BE	51.2	50.7	50.4	50.7	50.7	n.a.	50.8	52.2	51.8	51.8	-1.0	-1.0	-1.4
CY	39.7	39.1	38.9	38.3	37.6	n.a.	38.9	38.1	37.6	37.3	1.6	1.4	1.6
DE	45 1/4	44 3/4	44 3/4	44 3/4	44 3/4	n.a.	45.0	43.9	43.8	43.5	1.3	1.1	1.3
EE	39.9	40.9	41.3	40.6	39.7	38.6	40.3	40.2	40.4	40.4	-0.3	0.5	0.9
IE	25.7	25.4	25.1	24.8	24.7	n.a.	26.6	26.1	25.4	25.0	-0.4	0.0	0.1
ES	37.9	38.3	38.5	38.6	38.7	n.a.	37.7	41.0	40.7	40.0	-3.1	-2.4	-1.5
FR	53.9	53.7	52.6	52.4	52.2	52.0	53.2	56.5	56.0	55.1	-2.6	-2.3	-2.5
IT	46.6	46.4	46.5	46.4	46.2	n.a.	46.9	48.9	48.0	47.6	-2.3	-1.6	-1.1
LV	37.1	36.8	36.1	36.4	35.3	n.a.	37.2	38.0	38.8	38.4	-0.9	-2.0	-2.3
LT	33.8	36.2	36.3	36.3	36.1	n.a.	34.5	33.3	33.3	33.6	0.5	2.9	2.7
LU	44.2	43.9	43.6	43.8	43.9	43.7	43.7	42.9	43.1	43.3	1.3	0.8	0.3
MT	40.5	38.7	38.0	37.6	37.4	n.a.	38.1	36.5	37.3	36.8	3.9	1.4	1.2
NL	43.6	43.5	43.6	43.3	43.0	n.a.	43.8	42.6	42.6	42.4	1.0	0.9	1.2
AT	48.6	48.1	47.8	47.7	47.4	47.3	49.0	49.1	48.5	47.9	-0.5	-0.3	-0.1
PT	42.9	43.2	42.9	42.9	43.2	42.7	43.0	45.9	44.1	43.5	-3.0	-0.9	-0.6
SI	43.1	42.3	41.7	40.8	39.8	n.a.	43.3	43.1	41.8	41.5	0.0	0.5	0.2
SK	39.4	38.2	37.7	37.9	37.1	n.a.	39.3	40.4	39.5	38.3	-1.0	-1.3	-0.6
FI	53.2	52.1	51.8	51.8	51.7	n.a.	54.2	53.7	52.6	51.5	-0.6	-0.5	0.3
EA (ex. EL)	46.1	45.9	45.6	45.5	45.4	n.a.	46.1	47.1	46.6	46.1	0.9	-0.7	-0.4
BG	36.2	36.3	36.6	36.1	35.8	n.a.	35.2	35.2	35.8	35.8	1.0	0.5	0.8
CZ	40.4	40.9	40.6	40.5	40.4	n.a.	40.2	38.8	38.9	39.5	1.6	1.9	1.0
DK	51.9	49.8	49.3	48.8	48.6	n.a.	53.2	51.9	51.9	51.6	0.1	-2.0	-2.4
HR	46.0	46.0	45.2	45.1	44.6	n.a.	46.3	45.3	45.1	44.6	0.8	0.9	0.7
HU	44.5	45.5	45.1	42.9	41.0	39.9	44.9	46.5	47.1	47.1	-2.0	-1.6	-2.0
RO	30.5	31.3	31.5	31.8	32.0	n.a.	31.6	33.4	34.3	34.9	-2.9	-3.0	-3.4
PL	39.6	40.2	40.3	39.9	39.2	n.a.	38.8	41.2	41.7	41.9	-1.6	-1.5	-1.6
SE	50.2	49.5	49.2	49.1	49.1	n.a.	50.6	49.1	48.9	48.4	1.1	0.6	0.8
UK	36.4	36.7	36.6	36.5	36.2	36.5	38.5	38.5	38.4	38.4	-2.1	-1.7	-1.7
EU (ex. EL)	44.4	44.2	44.0	43.9	43.7	n.a.	44.6	45.4	45.0	44.7	-1.0	-0.8	-0.7

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

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

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

	2018 stability and convergence programmes						Commission spring 2018 forecast				Difference compared to forecast (red means higher in programme)		
	2017	2018	2019	2020	2021	2022	2016	2017	2018	2019	2017	2018	2019
BE	52.2	51.7	51.1	50.6	50.6	n.a.	53.2	52.2	51.8	51.8	0.0	0.0	-0.7
CY	37.9	37.4	37.2	36.6	35.7	n.a.	38.6	38.1	37.6	37.3	-0.2	-0.2	-0.1
DE	44	44	43 2/4	43 2/4	43 1/4	n.a.	44.0	43.9	43.8	43.5	0.1	0.2	0.0
EE	40.2	40.7	40.8	40.2	39.5	38.5	40.6	40.2	40.4	40.4	0.0	0.3	0.4
IE	26.1	25.6	25.2	24.5	24.3	n.a.	27.1	26.1	25.4	25.0	0.0	0.2	0.2
ES	41.0	40.5	39.8	39.1	38.6	n.a.	42.2	41.0	40.7	40.0	0.0	-0.2	-0.1
FR	56.5	56.0	54.9	53.3	52.5	51.7	56.6	56.5	56.0	55.1	0.0	0.0	-0.2
IT	48.9	48.0	47.2	46.5	46.0	n.a.	49.3	48.9	48.0	47.6	0.0	0.0	-0.4
LV	37.6	37.8	37.1	36.8	35.7	n.a.	37.1	38.0	38.8	38.4	-0.4	-1.0	-1.3
LT	33.3	35.7	35.7	35.7	35.9	n.a.	34.2	33.3	33.3	33.6	0.0	2.4	2.1
LU	42.6	42.8	42.3	42.2	41.4	41.3	42.1	42.9	43.1	43.3	-0.3	-0.3	-1.0
MT	36.5	37.6	37.1	36.7	35.8	n.a.	37.1	36.5	37.3	36.8	0.0	0.3	0.3
NL	42.6	42.8	42.7	42.8	42.7	n.a.	43.4	42.6	42.6	42.4	0.0	0.2	0.3
AT	49.3	48.5	47.8	47.6	47.2	46.9	50.6	49.1	48.5	47.9	0.2	0.1	-0.1
PT	43.8	43.9	43.0	42.2	41.7	41.4	44.9	45.9	44.1	43.5	-2.0	-0.1	-0.5
SI	43.1	41.9	41.5	40.2	38.9	n.a.	45.3	43.1	41.8	41.5	0.0	0.1	0.0
SK	40.4	39.0	38.0	37.9	37.1	n.a.	41.5	40.4	39.5	38.3	0.0	-0.5	-0.3
FI	53.7	52.7	52.0	51.7	51.4	n.a.	56.0	53.7	52.6	51.5	0.0	0.1	0.5
EA (ex. EL)	47.1	46.6	45.9	45.3	44.9	n.a.	47.6	47.1	46.6	46.1	0.0	0.1	-0.1
BG	35.3	36.3	36.3	35.6	35.6	n.a.	35.0	35.2	35.8	35.8	0.1	0.5	0.5
CZ	38.8	39.4	39.5	39.5	39.5	n.a.	39.4	38.8	38.9	39.5	0.0	0.4	0.0
DK	50.9	50.6	50.0	49.5	49.2	n.a.	53.6	51.9	51.9	51.6	-0.9	-1.3	-1.7
HR	45.3	46.5	45.6	45.1	44.1	n.a.	47.2	45.3	45.1	44.6	0.0	1.5	1.1
HU	46.5	47.9	46.9	44.4	42.2	40.5	46.5	46.5	47.1	47.1	0.0	0.8	-0.2
RO	33.4	34.3	33.9	33.6	33.4	n.a.	34.6	33.4	34.3	34.9	0.0	0.0	-1.0
PL	41.1	42.3	41.8	41.0	39.8	n.a.	41.1	41.2	41.7	41.9	-0.1	0.6	-0.1
SE	49.1	48.6	48.2	47.9	47.2	n.a.	49.4	49.1	48.9	48.4	0.0	-0.3	-0.2
UK	38.7	38.5	38.3	38.0	37.7	37.4	41.3	41.0	40.6	40.4	-2.4	-2.1	-2.1
EU (ex. EL)	45.4	45.1	44.5	44.0	43.5	n.a.	46.2	45.8	45.4	45.0	-0.4	-0.3	-0.4

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

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

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

	2018 stability and convergence programmes						Commission spring 2018 forecast				Difference compared to forecast (red means higher in programme)		
	2017	2018	2019	2020	2021	2022	2016	2017	2018	2019	2017	2018	2019
BE	-1.3	-1.1	-0.9	-0.2	-0.1	n.a.	-2.1	-1.3	-1.4	-1.7	0.0	0.3	0.8
CY	1.6	0.6	0.3	0.1	0.1	n.a.	1.2	1.4	0.8	0.5	0.2	-0.2	-0.2
DE	1.4	0.7	0.9	1.2	1.6	n.a.	1.1	1.5	1.2	1.0	-0.1	-0.4	-0.1
EE	-1.1	-0.8	-0.4	-0.3	-0.3	-0.2	-0.4	-1.2	-1.3	-0.9	0.1	0.5	0.5
IE	-0.1	-0.6	-0.4	0.3	0.8	n.a.	-0.8	-0.1	-0.6	-0.4	0.0	0.0	0.0
ES	-3.0	-2.5	-2.1	-1.7	-1.1	n.a.	-3.3	-3.0	-3.3	-3.2	0.0	0.7	1.0
FR	-2.1	-2.0	-1.8	-1.5	-1.2	-0.9	-2.6	-2.1	-2.1	-3.1	0.0	0.1	1.4
IT	-1.7	-1.5	-0.8	-0.2	-0.2	n.a.	-1.4	-1.7	-1.7	-2.0	0.0	0.2	1.1
LV	-1.2	-1.7	-1.5	-0.7	-0.4	n.a.	-0.3	-1.2	-1.9	-1.9	0.1	0.2	0.5
LT	-0.6	-0.2	-0.1	0.3	0.3	n.a.	-0.3	-0.6	-0.7	-0.6	0.0	0.4	0.6
LU	2.0	1.0	0.8	0.8	1.8	2.0	1.8	1.8	0.8	0.3	0.1	0.2	0.5
MT	3.5	0.5	0.8	0.9	1.7	n.a.	0.5	3.5	0.6	1.1	0.0	-0.1	-0.3
NL	0.6	-0.1	-0.3	-0.2	-0.1	n.a.	0.8	0.5	-0.1	-0.3	0.1	0.0	0.0
AT	-0.5	-0.8	-0.5	-0.2	0.2	0.6	-0.9	-0.6	-0.8	-0.6	0.1	0.0	0.1
PT	-1.0	-0.6	-0.3	0.4	0.6	0.8	-2.0	-1.1	-1.1	-1.1	0.1	0.5	0.9
SI	-0.5	-1.1	-1.4	-0.7	0.2	n.a.	-1.1	-0.6	-1.1	-1.5	0.0	0.0	0.1
SK	-0.9	-0.9	-0.6	-0.3	-0.2	n.a.	-2.0	-1.0	-1.2	-0.8	0.1	0.3	0.2
FI	-0.2	-0.6	-0.6	-0.2	0.1	n.a.	-0.7	-0.1	-0.8	-0.9	0.0	0.3	0.3
EA (ex. EL)	-0.6	-0.8	-0.6	-0.2	0.1	n.a.	-0.9	-0.6	-0.9	-1.2	0.0	0.0	0.6
BG	1.0	0.0	0.4	0.5	0.0	n.a.	0.3	0.9	0.5	0.5	0.1	-0.5	-0.1
CZ	1.3	1.1	0.6	0.7	0.8	n.a.	1.0	1.2	0.9	0.2	0.1	0.2	0.3
DK	1.5	0.4	0.6	0.3	0.3	n.a.	0.3	1.4	0.3	0.9	0.0	0.1	-0.3
HR	0.5	-1.6	-1.8	-1.8	-1.7	n.a.	-0.7	0.4	-0.3	-0.6	0.1	-1.3	-1.2
HU	-3.0	-3.2	-2.6	-2.1	-1.6	-0.7	-1.8	-3.1	-3.6	-3.3	0.1	0.4	0.7
RO	-2.9	-3.3	-2.8	-2.4	-2.1	n.a.	-2.1	-3.3	-3.8	-4.2	0.4	0.5	1.4
PL	-2.1	-2.7	-2.1	-1.7	-1.3	n.a.	-2.0	-2.0	-2.2	-2.2	-0.1	-0.5	0.1
SE	1.3	0.9	1.0	1.4	2.2	n.a.	0.9	1.2	0.7	1.0	0.0	0.2	0.0
UK	-2.7	-2.2	-1.9	-1.6	-1.4	-0.9	-2.8	-2.6	-2.2	-1.8	0.0	0.0	-0.1
EU (ex. EL)	-0.9	-1.0	-0.8	-0.4	-0.1	n.a.	-1.2	-0.9	-1.1	-1.2	0.0	0.0	0.5

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

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

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

	2018 stability and convergence programmes						Commission spring 2018 forecast				Difference compared to forecast (red means higher in programme)		
	2017	2018	2019	2020	2021	2022	2016	2017	2018	2019	2017	2018	2019
BE	0.8	0.2	0.2	0.7	0.1	n.a.	0.1	0.8	-0.1	-0.3	0.0	0.3	0.5
CY	0.3	-1.0	-0.3	-0.2	0.0	n.a.	-0.5	0.2	-0.6	-0.3	0.1	-0.3	0.0
DE	0.3	-0.7	0.2	0.3	0.3	n.a.	0.0	0.4	-0.3	-0.1	-0.1	-0.4	0.3
EE	-0.7	0.3	0.4	0.1	0.0	0.1	-0.4	-0.8	-0.1	0.4	0.1	0.4	0.1
IE	0.7	-0.5	0.2	0.7	0.5	n.a.	0.7	0.7	-0.6	0.2	0.0	0.0	0.0
ES	0.3	0.4	0.4	0.5	0.5	n.a.	-0.9	0.3	-0.3	0.1	0.0	0.7	0.3
FR	0.5	0.0	0.3	0.3	0.3	0.3	0.2	0.5	0.0	-1.0	0.0	0.1	1.3
IT	-0.2	0.1	0.7	0.6	0.0	n.a.	-0.8	-0.3	0.0	-0.3	0.0	0.2	1.0
LV	-0.9	-0.6	0.2	0.8	0.3	n.a.	1.2	-1.0	-0.6	-0.1	0.1	0.1	0.3
LT	-0.2	0.4	0.2	0.4	0.0	n.a.	0.4	-0.3	0.0	0.0	0.0	0.4	0.2
LU	0.1	-1.0	-0.1	0.0	1.0	0.3	0.2	0.0	-1.1	-0.5	0.1	0.0	0.4
MT	3.0	-2.9	0.3	0.1	0.8	n.a.	3.0	3.0	-2.9	0.5	0.0	-0.1	-0.2
NL	-0.2	-0.7	-0.2	0.1	0.1	n.a.	1.7	-0.3	-0.6	-0.2	0.1	-0.1	0.0
AT	0.3	-0.3	0.3	0.3	0.4	0.4	-0.8	0.3	-0.2	0.2	0.0	-0.1	0.1
PT	1.0	0.4	0.3	0.6	0.2	0.2	0.4	0.9	0.0	-0.1	0.1	0.4	0.4
SI	0.6	-0.6	-0.4	0.8	0.9	n.a.	0.2	0.6	-0.5	-0.5	0.1	-0.1	0.1
SK	1.0	0.0	0.3	0.3	0.0	n.a.	0.3	0.9	-0.1	0.4	0.1	0.1	-0.1
FI	0.5	-0.4	0.0	0.4	0.3	n.a.	0.2	0.5	-0.7	-0.1	0.0	0.3	0.1
EA (ex. EL)	0.3	-0.2	0.3	0.4	0.3	n.a.	-0.1	0.3	-0.2	-0.3	0.0	0.0	0.6
BG	0.7	-1.0	0.4	0.1	-0.4	n.a.	1.5	0.6	-0.4	0.0	0.1	-0.6	0.4
CZ	0.3	-0.2	-0.5	0.1	0.1	n.a.	1.5	0.3	-0.3	-0.6	0.1	0.2	0.1
DK	1.1	-1.0	0.2	-0.2	0.0	n.a.	2.1	1.1	-1.1	0.6	0.0	0.1	-0.4
HR	1.2	-2.1	-0.2	0.0	0.1	n.a.	1.6	1.1	-0.7	-0.3	0.0	-1.3	0.1
HU	-1.2	-0.2	0.7	0.5	0.5	0.9	0.3	-1.4	-0.5	0.4	0.1	0.3	0.3
RO	-1.0	-0.4	0.5	0.4	0.2	n.a.	-1.9	-1.2	-0.4	-0.4	0.2	0.0	0.9
PL	-0.1	-0.6	0.6	0.4	0.4	n.a.	0.3	0.0	-0.1	0.0	-0.1	-0.4	0.7
SE	0.3	-0.4	0.1	0.4	0.8	n.a.	0.7	0.3	-0.5	0.3	0.0	0.2	-0.2
UK	0.1	0.5	0.3	0.3	0.2	0.5	1.4	0.1	0.4	0.4	-0.1	0.1	-0.1
EU (ex. EL)	0.2	-0.1	0.3	0.4	0.3	n.a.	0.3	0.3	-0.2	-0.2	0.0	0.0	0.4

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

Source: European Commission based on Commission 2018 spring forecast and 2018 SCPS.

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

	2018 stability and convergence programmes						Commission spring 2018 forecast				Difference compared to forecast (red means higher in programme)		
	2017	2018	2019	2020	2021	2022	2016	2017	2018	2019	2017	2018	2019
BE	1.2	1.3	1.3	1.9	1.9	n.a.	0.7	1.2	0.9	0.5	0.0	0.4	0.8
CY	4.8	3.5	3.2	3.0	2.9	n.a.	4.5	4.6	3.8	3.3	0.2	-0.3	-0.1
DE	2.4	1.8	1.9	2.2	2.5	n.a.	2.2	2.5	2.2	2.0	-0.1	-0.3	-0.1
EE	-1.1	-0.8	-0.4	-0.3	-0.3	-0.2	-0.3	-1.2	-1.2	-0.9	0.1	0.4	0.5
IE	1.9	1.1	1.2	1.8	2.2	n.a.	1.4	1.9	1.1	1.3	0.0	0.0	-0.1
ES	-0.4	-0.2	0.2	0.6	1.1	n.a.	-0.5	-0.4	-0.9	-0.8	0.0	0.7	1.0
FR	-0.3	-0.3	-0.1	0.3	0.7	1.1	-0.7	-0.3	-0.4	-1.5	0.0	0.1	1.4
IT	2.1	2.0	2.7	3.3	3.3	n.a.	2.5	2.1	1.9	1.5	0.0	0.1	1.2
LV	-0.2	-0.9	-0.6	0.2	0.4	n.a.	0.8	-0.3	-1.1	-1.2	0.1	0.1	0.6
LT	0.5	0.7	0.8	1.0	0.9	n.a.	1.0	0.5	0.2	0.2	0.0	0.5	0.7
LU	2.3	1.3	1.1	1.1	2.0	2.2	2.1	2.2	1.1	0.6	0.1	0.1	0.5
MT	5.4	2.1	2.3	2.2	2.9	n.a.	2.7	5.4	2.3	2.6	0.0	-0.1	-0.3
NL	1.6	0.7	0.4	0.5	0.5	n.a.	1.9	1.5	0.7	0.5	0.1	-0.1	-0.1
AT	1.3	0.7	1.0	1.2	1.5	1.8	1.2	1.2	0.8	0.9	0.1	-0.1	0.0
PT	2.9	3.0	3.1	3.6	3.7	4.0	2.2	2.8	2.5	2.3	0.1	0.5	0.8
SI	2.0	0.9	0.3	0.9	1.6	n.a.	1.9	1.9	1.0	0.1	0.0	0.0	0.1
SK	0.5	0.4	0.6	0.8	0.8	n.a.	-0.3	0.4	0.1	0.4	0.1	0.3	0.2
FI	0.8	0.3	0.3	0.6	1.0	n.a.	0.4	0.8	0.1	0.0	0.0	0.2	0.3
EA (ex. EL)	1.3	1.0	1.2	1.6	1.9	n.a.	1.2	1.3	1.0	0.6	0.0	0.0	0.6
BG	1.8	0.7	1.0	1.1	0.6	n.a.	1.2	1.7	1.2	1.1	0.1	-0.5	-0.2
CZ	2.0	1.9	1.3	1.5	1.6	n.a.	1.9	2.0	1.6	1.0	0.1	0.2	0.3
DK	2.5	1.4	1.5	1.3	1.3	n.a.	1.7	2.5	1.4	1.9	0.0	0.0	-0.5
HR	3.2	0.9	0.3	-0.3	-0.3	n.a.	2.4	3.1	2.2	1.7	0.1	-1.3	-1.5
HU	-0.2	-0.6	-0.2	0.2	0.6	1.4	1.5	-0.3	-1.0	-0.8	0.1	0.4	0.6
RO	-1.5	-1.9	-1.5	-1.0	-0.7	n.a.	-0.6	-2.0	-2.3	-2.7	0.4	0.5	1.3
PL	-0.6	-1.3	-0.6	-0.2	0.2	n.a.	-0.3	-0.5	-0.7	-0.7	-0.1	-0.6	0.1
SE	1.6	1.2	1.4	1.8	2.6	n.a.	1.4	1.6	1.0	1.3	0.0	0.2	0.2
UK	0.0	0.4	0.5	0.8	0.9	1.4	-0.3	0.1	0.3	0.7	0.0	0.0	-0.1
EU (ex. EL)	1.1	0.8	1.0	1.4	1.6	n.a.	0.9	1.1	0.8	0.6	0.0	0.0	0.5

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

Source: European Commission based on Commission 2018 spring forecast and 2018 SCPS.

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

	2018 stability and convergence programmes						Commission spring 2018 forecast				Difference compared to forecast (red means higher in programme)		
	2017	2018	2019	2020	2021	2022	2016	2017	2018	2019	2017	2018	2019
BE	0.4	0.0	0.0	0.6	0.0	n.a.	-0.1	0.4	-0.3	-0.4	0.0	0.3	0.4
CY	0.2	-1.3	-0.2	-0.2	-0.1	n.a.	-1.0	0.1	-0.8	-0.5	0.1	-0.5	0.2
DE	0.2	-0.6	0.1	0.3	0.3	n.a.	-0.2	0.3	-0.4	-0.2	-0.1	-0.3	0.3
EE	-0.7	0.3	0.4	0.1	0.0	0.1	-0.4	-0.8	-0.1	0.4	0.1	0.3	0.1
IE	0.5	-0.8	0.1	0.6	0.4	n.a.	0.3	0.4	-0.8	0.2	0.0	0.0	-0.1
ES	0.1	0.2	0.3	0.4	0.5	n.a.	-1.2	0.1	-0.5	0.0	0.0	0.7	0.3
FR	0.4	0.0	0.3	0.4	0.4	0.4	0.1	0.4	-0.1	-1.1	0.0	0.1	1.3
IT	-0.4	-0.2	0.7	0.6	0.0	n.a.	-1.0	-0.4	-0.3	-0.4	0.0	0.1	1.0
LV	-1.0	-0.7	0.3	0.8	0.2	n.a.	0.9	-1.1	-0.8	-0.1	0.1	0.1	0.5
LT	-0.4	0.1	0.2	0.2	-0.1	n.a.	0.2	-0.5	-0.3	0.0	0.0	0.5	0.2
LU	0.1	-1.1	-0.1	0.0	0.9	0.3	0.2	0.1	-1.1	-0.5	0.1	0.0	0.4
MT	2.8	-3.2	0.2	-0.1	0.7	n.a.	2.8	2.7	-3.1	0.3	0.0	-0.1	-0.2
NL	-0.4	-0.9	-0.3	0.1	0.0	n.a.	1.6	-0.4	-0.8	-0.3	0.1	-0.1	0.0
AT	0.0	-0.6	0.2	0.2	0.3	0.3	-1.0	0.0	-0.4	0.1	0.0	-0.2	0.1
PT	0.7	0.0	0.1	0.5	0.1	0.3	0.0	0.6	-0.3	-0.2	0.1	0.4	0.4
SI	0.1	-1.0	-0.7	0.6	0.8	n.a.	0.0	0.0	-1.0	-0.8	0.1	-0.1	0.1
SK	0.8	-0.1	0.2	0.2	0.0	n.a.	0.2	0.7	-0.2	0.3	0.1	0.1	-0.1
FI	0.4	-0.5	0.0	0.4	0.3	n.a.	0.1	0.4	-0.7	-0.1	0.0	0.2	0.1
EA (ex. EL)	0.1	-0.3	0.2	0.4	0.3	n.a.	-0.3	0.1	-0.4	-0.4	0.0	0.0	0.6
BG	0.6	-1.1	0.3	0.1	-0.4	n.a.	1.4	0.5	-0.5	-0.1	0.1	-0.6	0.4
CZ	0.1	-0.2	-0.5	0.2	0.2	n.a.	1.3	0.1	-0.4	-0.6	0.1	0.2	0.1
DK	0.8	-1.1	0.1	-0.2	0.1	n.a.	1.9	0.8	-1.1	0.5	0.0	0.0	-0.5
HR	0.7	-2.2	-0.6	-0.5	0.0	n.a.	1.2	0.7	-0.9	-0.5	0.0	-1.4	-0.2
HU	-1.7	-0.4	0.5	0.4	0.4	0.8	-0.1	-1.8	-0.7	0.2	0.1	0.3	0.2
RO	-1.2	-0.3	0.4	0.5	0.2	n.a.	-2.0	-1.4	-0.4	-0.4	0.2	0.0	0.8
PL	-0.2	-0.7	0.7	0.4	0.4	n.a.	0.2	-0.2	-0.2	-0.1	-0.1	-0.5	0.8
SE	0.2	-0.4	0.2	0.4	0.8	n.a.	0.6	0.2	-0.6	0.3	0.0	0.2	-0.1
UK	0.3	0.3	0.2	0.2	0.1	0.5	1.8	0.4	0.2	0.3	-0.1	0.1	-0.2
EU (ex. EL)	0.1	-0.3	0.2	0.3	0.3	n.a.	0.2	0.2	-0.3	-0.2	0.0	0.0	0.4

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

Source: European Commission based on Commission 2018 spring forecast and 2018 SCsPs.

Table A.10: Discretionary fiscal effort (% of GDP)

	2018 stability and convergence programmes						Commission spring 2018 forecast				Difference compared to forecast (red means higher in programme)		
	2017	2018	2019	2020	2021	2022	2016	2017	2018	2019	2017	2018	2019
BE	n.a.	-0.1	0.3	0.3	-0.3	n.a.	0.2	0.2	-0.5	-0.9	n.a.	0.4	1.2
CY	n.a.	-0.2	-0.6	-0.1	0.2	n.a.	-0.7	-1.3	-0.6	-0.3	n.a.	0.4	-0.3
DE	n.a.	-0.7	0.0	0.3	0.3	n.a.	-0.9	-0.2	-0.4	-0.2	n.a.	-0.3	0.2
EE	n.a.	-0.5	0.1	0.3	0.6	n.a.	-0.2	-1.1	-0.3	0.5	n.a.	-0.2	-0.4
IE	n.a.	0.6	0.9	1.3	0.4	n.a.	0.5	-0.1	0.4	0.8	n.a.	0.2	0.1
ES	n.a.	-0.3	-0.1	0.2	0.2	n.a.	-0.3	-0.3	-0.8	-0.2	n.a.	0.4	0.1
FR	n.a.	0.0	0.2	0.6	0.5	n.a.	0.1	-0.3	-0.3	-1.1	n.a.	0.3	1.3
IT	n.a.	0.0	0.7	1.2	0.2	n.a.	-0.1	-0.2	-0.3	-0.4	n.a.	0.3	1.1
LV	n.a.	-0.8	0.3	0.0	1.0	n.a.	0.9	-1.5	-1.6	-0.7	n.a.	0.8	1.1
LT	n.a.	-2.0	-0.2	-0.1	-0.3	n.a.	0.3	0.2	-0.2	-0.4	n.a.	-1.8	0.2
LU	n.a.	-1.2	-0.3	-0.5	0.2	n.a.	-0.5	-2.1	-1.0	-0.8	n.a.	-0.3	0.5
MT	n.a.	-3.5	0.2	0.6	1.1	n.a.	4.0	1.2	-3.2	0.2	n.a.	-0.2	0.0
NL	n.a.	-1.0	-0.4	0.1	-0.2	n.a.	0.3	0.2	-0.9	-0.4	n.a.	-0.1	-0.1
AT	n.a.	-0.2	0.2	-0.2	-0.2	n.a.	-1.4	0.3	-0.3	0.1	n.a.	0.2	0.1
PT	n.a.	-0.7	-0.3	0.2	0.1	n.a.	0.9	0.0	-1.1	-0.5	n.a.	0.4	0.2
SI	n.a.	-0.5	-0.5	0.9	1.1	n.a.	1.7	0.3	-0.3	-0.5	n.a.	-0.2	0.0
SK	n.a.	0.6	0.5	-0.5	0.5	n.a.	3.4	0.7	0.3	0.6	n.a.	0.3	-0.1
FI	n.a.	-0.4	-0.3	-0.3	0.0	n.a.	0.3	0.7	0.0	0.5	n.a.	-0.4	-0.8
EA (ex. EL)	n.a.	-0.3	0.2	0.4	0.2	n.a.	-0.2	-0.1	-0.4	-0.4	n.a.	0.1	0.6
BG	n.a.	-0.9	0.0	0.8	0.1	n.a.	5.2	-0.4	-0.8	-0.3	n.a.	-0.1	0.2
CZ	n.a.	-0.6	-0.4	0.1	0.0	n.a.	2.3	-0.2	-0.4	-0.8	n.a.	-0.2	0.4
DK	n.a.	1.7	0.5	0.7	0.9	n.a.	0.0	0.7	-0.2	0.4	n.a.	1.9	0.1
HR	n.a.	-2.2	-0.2	-0.6	0.3	n.a.	-0.4	0.3	-0.8	-0.3	n.a.	-1.3	0.1
HU	n.a.	-2.6	-0.2	1.4	0.9	n.a.	2.6	-3.1	-1.9	-0.3	n.a.	-0.7	0.1
RO	n.a.	-0.6	-0.4	-0.2	-0.2	n.a.	-0.6	-1.5	-0.9	-0.8	n.a.	0.3	0.4
PL	n.a.	-1.3	0.6	0.8	1.0	n.a.	0.9	-0.4	-0.9	-0.7	n.a.	-0.4	1.3
SE	n.a.	-0.1	0.2	0.4	0.0	n.a.	1.1	0.4	-0.2	0.5	n.a.	0.1	-0.3
UK	n.a.	0.2	0.7	0.2	0.3	n.a.	1.1	0.3	0.4	0.8	n.a.	-0.2	-0.2
EU (ex. EL)	n.a.	-0.3	0.2	0.4	0.3	n.a.	0.1	-0.1	-0.3	-0.2	n.a.	0.0	0.4

Note: Calculated on the basis of the 10-year average potential growth rate as estimated by the European Commission on the basis of the Commission spring 2018 forecast.

Source: European Commission based on Commission 2018 spring forecast and 2018 SCsPs.

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

	2018 stability and convergence programmes						Commission spring 2018 forecast				Difference compared to forecast (red means higher in programme)		
	2017	2018	2019	2020	2021	2022	2016	2017	2018	2019	2017	2018	2019
BE	103.1	101.2	99.4	97.1	94.6	n.a.	105.9	103.1	101.5	100.2	0.0	-0.3	-0.8
CY	97.5	105.6	100.0	94.6	88.0	n.a.	106.6	97.5	105.7	99.5	0.0	0.0	0.4
DE	64 1/4	61	58 1/4	55 3/4	53	n.a.	68.2	64.1	60.2	56.3	0.0	1.0	2.0
EE	9.0	8.5	7.7	6.9	6.2	5.3	9.4	9.0	8.8	8.4	0.0	-0.3	-0.7
IE	68.0	66.0	63.5	60.2	58.7	n.a.	72.8	68.0	65.6	63.2	0.0	0.4	0.3
ES	98.3	97.0	95.2	92.4	89.1	n.a.	99.0	98.3	97.6	95.9	0.0	-0.6	-0.7
FR	97.0	96.4	96.2	94.7	92.3	89.2	96.6	97.0	96.4	96.0	0.0	0.0	0.2
IT	131.8	130.8	128.0	124.7	122.0	n.a.	132.0	131.8	130.7	129.7	0.0	0.1	-1.7
LV	40.2	38.4	37.4	38.0	35.6	n.a.	40.5	40.1	37.0	37.3	0.1	1.4	0.1
LT	39.7	35.8	38.1	36.6	35.3	n.a.	40.1	39.7	36.0	38.2	0.0	-0.2	-0.1
LU	23.0	22.7	22.1	21.3	20.0	18.8	20.8	23.0	22.6	22.5	0.0	0.1	-0.4
MT	50.8	45.8	42.5	39.3	35.6	n.a.	56.2	50.8	47.1	43.4	0.0	-1.3	-0.9
NL	56.7	52.1	48.4	46.0	44.0	n.a.	61.8	56.7	53.5	50.1	0.0	-1.4	-1.7
AT	78.1	74.5	70.9	67.7	65.0	62.2	83.6	78.4	74.8	71.7	-0.4	-0.3	-0.7
PT	125.7	122.2	118.4	114.9	107.3	102.0	129.9	125.7	122.5	119.5	0.0	-0.3	-1.1
SI	73.6	69.3	65.2	61.5	58.3	n.a.	78.6	73.6	69.3	65.1	0.0	0.0	0.1
SK	50.9	49.3	46.5	44.9	43.3	n.a.	51.8	50.9	49.0	46.6	0.0	0.3	-0.1
FI	61.4	60.4	58.9	57.4	56.7	n.a.	63.0	61.4	60.4	59.6	0.0	0.0	-0.7
EA (ex. EL)	87.3	85.2	82.9	80.4	77.7	n.a.	89.7	87.3	85.0	82.7	0.0	0.1	0.1
BG	25.4	23.3	22.1	20.7	19.4	n.a.	29.0	25.4	23.3	21.4	0.0	0.0	0.7
CZ	34.6	32.9	31.6	30.7	29.9	n.a.	36.8	34.6	32.7	31.8	0.0	0.2	-0.2
DK	36.4	35.6	34.8	34.2	36.2	n.a.	37.9	36.4	33.6	32.3	0.0	2.0	2.5
HR	78.0	75.1	72.1	69.1	65.9	n.a.	80.6	78.0	73.7	69.7	0.0	1.4	2.5
HU	73.6	73.2	69.6	66.7	63.4	59.7	76.0	73.6	73.3	71.0	0.0	-0.1	-1.4
RO	35.0	35.4	35.8	35.4	34.5	n.a.	37.4	35.0	35.3	36.4	0.0	0.1	-0.6
PL	50.6	50.4	50.4	48.7	46.0	n.a.	54.2	50.6	49.6	49.1	0.0	0.8	1.3
SE	40.3	37.3	34.2	31.6	29.0	n.a.	42.1	40.6	38.0	35.5	-0.3	-0.7	-1.3
UK	85.5	85.4	85.3	84.9	84.8	84.2	86.7	86.7	85.5	84.3	-1.2	-0.1	1.1
EU (ex. EL)	81.8	80.0	78.1	75.9	73.7	n.a.	84.1	82.0	79.9	77.9	-0.2	0.1	0.2

Note: In case of missing programmes: weighted average of the figures for those countries that have submitted a programme. Commission EU averages are based on UK Fiscal year data.

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

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