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Assessment of the 2020 Stability Programme for

Spain

(Note prepared by DG ECFIN staff)

CONTENTS

EXECUTIVE SUMMARY 3

1. INTRODUCTION 4

2. MACROECONOMIC DEVELOPMENTS 4

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS 6

3.1. DEFICIT DEVELOPMENTS AND MEDIUM-TERM STRATEGY AND TARGETS 6

3.2. MEASURES UNDERPINNING THE PROGRAMME 9

3.3. DEBT DEVELOPMENTS 11

3.4. RISK ASSESSMENT 12

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT 12

   4.1. Compliance with the debt criterion 12

   4.2. Compliance with the deficit criterion 13

   4.3. Compliance with the required adjustment path towards the MTO in 2019 13

EXECUTIVE SUMMARY

- On 6 April 2020, the Commission provided guidelines to the Economic and Financial Committee on how the format and content of the 2020 Stability and Convergence Programmes can be streamlined in light of the exceptional circumstances related to the Covid-19 pandemic. This assessment takes into account the severe constraints that Member States faced in providing the information usually required in their Programmes. The assessment focuses on the near term in light of the high uncertainty attached to the projections.
- The Stability Programme assumes economic activity to contract significantly in the first half of 2020 following the COVID-19 outbreak. As the virus containment measures are gradually lifted, the programme assumes that economic activity starts to recover as of the third quarter of 2020, albeit at different speeds across sectors. Unemployment is set to mirror these developments, with a rapid rise in 2020 followed by an improvement in 2021. The macroeconomic outlook presented in the Stability Programme is very similar to the one in the Commission 2020 spring forecast.
- The programme projects the general government deficit to reach more than 10% of GDP in 2020, while the debt ratio is set to rise by 20 percentage points to around 115% of GDP in 2020, very close to the projections in the Commission 2020 spring forecast.
- The budgetary measures taken in response to the coronavirus outbreak include extra spending on health care to cope with the medical emergency; support to workers and firms to stem the fall of employment; income support to vulnerable groups and; injection of liquidity and provision of guarantees to companies to help them cope with the expected fall in revenues. The measures are generally targeted to specific groups and are temporary.
- The macroeconomic and fiscal outlooks are affected by high uncertainty due to the outbreak of the COVID-19 pandemic.

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2020 Stability Programme[1] of Spain covering the year 2020 (hereafter called the Programme), which was submitted on 30 April 2020[2]. The note also assesses Spain's compliance with the preventive arm of the Stability and Growth Pact in 2019.

Spain is currently subject to the preventive arm of the Stability and Growth Pact (SGP). As the debt ratio was 97.6% of GDP in 2018 (the year in which Spain corrected its excessive deficit), exceeding the 60% of GDP reference value, Spain is also subject to transitional arrangements as regards compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit (transitional debt rule). In this period, it should ensure sufficient progress towards compliance with the debt reduction benchmark. After the transition period, as of 2022, Spain is expected to comply with the debt reduction benchmark.

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

2. MACROECONOMIC DEVELOPMENTS

The Spanish economy was on a moderating growth path before the outbreak of the COVID-19 pandemic, with real GDP growth of 2.0% in 2019, above the euro area average. However, the declaration of a state of alert in mid-March was followed by lead to the introduction of strict confinement measures, which are expected to result in a very sharp contraction of output in 2020. Those measures included a ban on mobility outside the place of residence and to international tourism, the closure of non-essential shops, hotels, restaurants, entertainment venues, and the suspension of all non-essential activities (i.e. such as most manufacturing and construction activities) for two weeks. The Stability Programme assumes that a gradual lifting of restrictions will allow activity to start recovering in the third quarter of 2020. It projects

[1] The Stability Programme submitted by Spain does not indicate that it also constitutes the national medium-term fiscal plan required under Article 4(1) of Regulation 473/2013.

[2] The Stability Programme contains only short-term budgetary projections, in line with the guidelines for a streamlined format of the 2020 Stability and Convergence Programmes in light of the COVID-19 outbreak, provided by the Commission services on 6 April 2020.

real GDP to contract by 9.2% in 2020 before rebounding by 6.8% in 2021. Nominal GDP growth is expected to exhibit even larger swings, as the Stability Programme projects the GDP deflator to fall in 2020 before rebounding in 2021.These developments are driven by the fall and subsequent recovery of domestic demand, in particular private consumption. Employment is also expected to fall sharply in 2020 and rebound strongly in 2021. This would be reflected in the unemployment rate reaching 19% in 2020, before falling back to slightly above 17% in 2021.

The recovery is expected to be uneven across sectors, with the manufacturing sector resuming activity more quickly than the services sector, where restrictions are expected to remain in place for longer. This is likely to affect, in particular, tourism-related activities, such as transport, food and accommodation services. Still, disruptions in global value chains and weak demand may prevent industrial activity from normalising before the end of the current year.

Overall, the macroeconomic projections underpinning the Stability Programme are in line with the Commission 2020 spring forecast. The main differences between the two forecasts relate to the smaller contraction in external trade and more moderate swings in the GDP deflator forecast by the Commission.

The macroeconomic scenario underpinning the Stability Programme was endorsed on 1 May by Spain's independent fiscal institution (AIReF). AIReF deems the programme’s macroeconomic scenario as "feasible" given the assumptions about the evolution of the pandemic at the time of the publication of the Programme, but it does not rule out more adverse scenarios.

Table 1: Comparison of macroeconomic developments and forecasts

	2019		2020		2021	
	COM	SP	COM	SP	COM	SP
Real GDP (% change)	2.0	2.0	-9.4	-9.2	7.0	6.8
Private consumption (% change)	1.1	1.1	-10.7	-8.8	8.9	4.7
Gross fixed capital formation (% change)	1.8	1.8	-20.7	-25.5	10.3	16.7
Exports of goods and services (% change)	2.6	2.6	-19.8	-27.1	11.9	11.6
Imports of goods and services (% change)	1.2	1.2	-21.1	-31.0	12.4	9.3
Contributions to real GDP growth:						
- Final domestic demand	1.4	1.4	-9.2	-9.7	6.7	5.8
- Change in inventories	0.1	0.1	0.0	0.0	0.0	0.0
- Net exports	0.5	0.5	-0.1	0.5	0.3	1.0
Output gap[1]	2.3	2.6	-7.3	-6.5	-2.4	-1.6
Employment (% change)	2.1	n.a.	-5.6	n.a.	2.9	n.a.
Unemployment rate (%)	14.1	14.1	18.9	19.0	17.0	17.2
Labour productivity (% change)	-0.3	n.a.	-0.7	n.a.	0.8	n.a.
HICP inflation (%)	0.8	n.a.	0.0	n.a.	1.0	n.a.
GDP deflator (% change)	1.6	1.6	0.2	-1.0	1.0	1.8
Comp. of employees (per head, % change)	2.0	2.0	0.5	2.0	0.7	2.0
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.3	2.3	3.5	n.a.	3.0	1.8

Note:

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

Source :

Commission 2020 spring forecast (COM); Stability Programme (SP).

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS AND MEDIUM-TERM STRATEGY AND TARGETS

The 2019 general government deficit amounted to 2.8% of GDP, 0.3 percentage points higher than in 2018 and 0.8 percentage points higher than targeted in the 2020 Draft Budgetary Plan (DBP) submitted in October 2019. A widening deficit with above-potential GDP growth rate implies an expansionary stance of fiscal policy. Compared with the target in the DBP, most of the slippage occurred on the expenditure side, where all categories registered higher-than-expected levels of spending, but in particular compensation of employees and social transfers. On the revenue side, taxes on income and wealth came in 0.4 percentage points lower than expected, only partly offset by higher revenues from property income and other revenues. Overall, after taking into account the impact of discretionary measures, revenue developments in 2019 were in line with nominal GDP growth.

For 2020, the Stability Programme foresees the general government deficit to rise to 10.3% of GDP, with the expenditure ratio rising by almost 10 percentage points, from 41.9% of GDP to 51.5%. This reflects in about equal measure an increase in the spending level in absolute terms and a denominator effect caused by the projected fall in nominal GDP. The higher expenditure level, in turn, is partly explained by a combination of measures to fight COVID-19, mainly within the health care sector, and measures to counteract the economic and social consequences of the lock-down. In addition to this, expenditure is also expected to increase due to the normal working of automatic stabilisers, namely in the form of higher unemployment benefit spending, and the continuation of strong underlying upward expenditure trends, in particular with regard to pensions. Meanwhile, the revenue ratio is expected to rise by about 2 percentage points, from 39.1% of GDP to 41.2%, as the projected tax revenues seem to fall by significantly less than implied by the fall in tax bases and despite the impact of revenue-reducing measures.

In line with the guidelines for a streamlined submission in light of the COVID-19 outbreak and the high uncertainty surrounding the medium-term fiscal outlook, the Stability Programme only provides a qualitative overview of the fiscal strategy for 2021. Fiscal policy is set to continue to focus on dampening the negative effects of the current crisis by reinforcing the welfare state, continuing to provide liquidity to companies and the self-employed while maintaining the sustainability of public finances. As the economy is expected to rebound, the general government deficit is likely to decrease in 2021.

The fiscal projections in the Stability Programme are broadly similar to those of the Commission 2020 spring forecast, which projects the general government deficit to reach 10.1% of GDP in 2020 before decreasing to 6.7% in 2021. The main difference is that the Stability Programme assumes tax revenues to be more resilient relative to the fall in economic activity than in the Commission forecast, which is more than offset by higher expenditure, especially on social transfers.[3]

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

Table 2: General government budgetary position

(% of GDP)	2019	2020		2021	
	COM	COM	SP	COM	SP
Revenue	**39.1**	**39.6**	**41.2**	**38.9**	**n.a.**
of which:					
- Taxes on production and imports	11.5	11.2	11.9	11.5	n.a.
- Current taxes on income, wealth, etc.	10.4	10.4	11.1	10.5	n.a.
- Social contributions	12.9	13.6	13.5	12.5	n.a.
- Other (residual)	4.4	4.5	4.7	4.5	n.a.
Expenditure	**41.9**	**49.7**	**51.5**	**45.6**	**n.a.**
of which:					
- Primary expenditure	39.6	47.3	48.9	43.3	n.a.
of which:					
Compensation of employees+Intermediate consumption	15.9	18.5	18.9	17.2	n.a.
Compensation of employees	10.8	12.3	12.7	11.7	n.a.
Intermediate consumption	5.1	6.2	6.2	5.6	n.a.
Social payments	18.4	22.3	23.8	20.5	n.a.
Subsidies	1.0	1.6	1.2	1.1	n.a.
Gross fixed capital formation	2.0	2.3	2.6	2.2	n.a.
Other (residual)	2.3	2.6	2.5	2.3	n.a.
- Interest expenditure	2.3	2.4	2.6	2.3	n.a.
General government balance (GGB)	**-2.8**	**-10.1**	**-10.3**	**-6.7**	**n.a.**
Primary balance	**-0.5**	**-7.7**	**-7.7**	**-4.4**	**n.a.**
One-off and other temporary measures	-0.2	-0.2	0.0	0.0	n.a.
GGB excl. one-offs	**-2.6**	**-10.0**	**-10.3**	**-6.7**	**n.a.**
Output gap[1]	2.3	-7.3	-6.5	-2.4	-1.6
Cyclically-adjusted balance[1]	-4.2	-5.8	-6.8	-5.2	n.a.
Structural balance[2]	**-4.0**	**-5.6**	**-6.8**	**-5.2**	**n.a.**
Structural primary balance[2]	-1.7	-3.2	-4.2	-3.0	n.a.
Gross debt ratio	**95.5**	**115.6**	**115.5**	**113.7**	**n.a.**

Notes:

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

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

Source :

Stability Programme (SP); Commission 2020 spring forecasts (COM); Commission calculations.

3.2. Measures underpinning the programme

The measures that the authorities have taken in relation to the COVID-19 outbreak have four main objectives: a) to reinforce the capacity of the health system to cope with the medical emergency, b) to limit the negative impact on employment of the confinement measures, c) to limit the negative social impact on certain vulnerable groups of the fall in activity and d) to limit the damage to the productive capacity of the economy by providing liquidity and guarantees for companies. They have been enacted through a series of Royal Decree Laws and have generally been limited in time to 2020 or even to the period of state of alert and targeted to groups that are most affected by the COVID-19 outbreak.

The measures with the largest reported budgetary impact fall into the first two categories mentioned above (See Table 3). Health measures consist not only of covering the immediate medical needs of the health care sector, but also investment in research on COVID-19 with the aim of developing effective pharmaceuticals and vaccines. Among the measures aimed at protecting employment and household incomes, the main ones are the short-time work schemes (ERTEs) and the income support measures for self-employed that temporarily have gone out of business or suffered a significant drop in revenues. For the former, this implies that the beneficiaries maintain their employment status, despite the fact that they provide no working hours. They also receive social benefits from the government during this time and the government takes over the obligation from the employer to pay social contributions for the employees covered by this scheme. Similarly, the government also steps in and provides social benefits to those self-employed who have been forced to close or significantly reduce their activity because of the COVID-19 crisis. It also takes over their obligation to pay social contributions. These measures remain in place as long as the state of alert remains in force.

The Stability Programme also reports on liquidity-enhancing measures aimed at alleviating the financial pressures on companies affected by the COVID-19 crisis (see Table 4). These are not deemed to have any budgetary impact in 2020.

Overall, the measures taken by Spain are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak.[4] The measures appear timely, temporary and targeted at cushioning the COVID19-induced shock. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term.

The Commission 2020 spring forecast has taken on board the measures reported in the Stability Programme, though the estimate of their budgetary impact is smaller (at 0.8% of GDP). The Commission forecast considers a large share of the expenditure on short-term work schemes as part of the operation of the automatic stabilisers, whereas the programme appears to report the gross impact of these schemes under the budgetary measures taken in response to the crisis. On substance, this does not point to fundamental differences in the overall assessment of the impact of the crisis

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[4] https://ec.europa.eu/info/sites/info/files/communication-coordinated-economic-response-covid19-march-2020_en.pdf

on government expenditure. However, the lack of a more detailed description on exactly how these measures have been incorporated in the Stability Programme projections makes it more difficult to compare with the Commission forecast. The Stability Programme states that 4 million workers are covered by short time work schemes, but does not indicate whether this is on a full-time equivalent basis. The Commission forecast is based on the assumption that 3.3 million workers are covered on a full-time equivalent basis.

Table 3: Discretionary measures adopted/announced in response to COVID-19 outbreak

List of measures	Description	ESA Code (Expenditure / Revenue component)	Adoption Status	Budgetary impact (% of GDP - change from previous year)	
					2020
Strengthening the financing of health and research sectors	Increased allocation to health ministry	D1, P2, D63, D62	Approved through Royal Decree Law 7/2020		0.1
	Early transfer of money to the regions enabling increased health expenditure	D1, P2, D63, D62	Approved through Royal Decree Law 7/2020		0.3
	Increase of funds available for research	D1	Approved through Royal Decree Law 8/2020		0.1
	Temporary 0% VAT rate for medical supplies for hospitals	D2	Approved through Royal Decree Law 15/2020		0.1
Labour market measures	Increased protection of confined or infected workers	D62	Approved through Royal Decree Law 6/2020		0.1
	Social benefits for workers affected by short working time schemes	D62	Approved through Royal Decree Law 8/2020		1.6
	Social benefits for self-employed forced out of business or suffering a significant drop in business because of the health emergency	D62	Approved through Royal Decree Law 8/2020, modified through RDL 11/2020		0.3
	Suspended social contributions as part of short working time schemes	D61	Approved through Royal Decree Law 8/2020		0.2
	Suspended social contributions for those self-employed suffering a significant drop in business because of the health emergency	D61	Approved through Royal Decree Law 8/2020, modified through RDL 11/2020		0.1
Ensure corporate viability	Possibility to adapt corporate and personal income tax instalment payments to actual tax base	D5	Approved through Royal Decree Law 15/2020		0.1
				Total	**3.1**

Source: Stability Programme

Table 4: Guarantees adopted/announced in response to COVID-19 outbreak

List of measures	Description	Adoption Status		Maximum amount of contingent liability (% of GDP)
Bank guarantees	A guarantee of up to 70% (80% in the case of SMEs) of credit amount	Approved through Royal Decree Law 8/2020		8.8
Extraordinary insurance coverage	Trade credit line for SMEs and non-listed companies with export activity	Approved through Royal Decree Law 8/2020		0.2
Guarantees for vulnerable households	Guarantee covering housing costs for tenants in vulnerable situation because of COVID-19	Approved through Royal Decree Law 11/2020		0.1
Guarantees via CERSA	Guarantee covering credit risk of SMEs	Approved through Royal Decree Law 11/2020		0.1
			Total	**9.2**

Source: Stability Programme

3.3. DEBT DEVELOPMENTS

The Stability Programme projects the gross government debt ratio to rise from 95.5% of GDP in 2019 to 115.5% of GDP in 2020. This is very similar to the Commission 2020 spring forecast. However, whereas the two forecasts project a similar evolution for the primary balance, the Stability Programme assumes a stronger snowball effect than in the Commission forecast, mainly from a lower inflation rate. This difference is largely offset by different assumptions regarding stock-flow adjustment, on which the Stability Programme does not give any details. The Stability Programme does not contain any debt projections for 2021. According to the Commission forecast, the debt ratio should decline slightly in 2021, as the impact of nominal GDP growth is likely to outweigh the effect of a still high government deficit.

Table 5: Debt developments

(% of GDP)	Average 2014-2018	2019	2020		2021	
			COM	SP	COM	SP
Gross debt ratio[1]	**99.1**	**95.5**	**115.6**	**115.5**	**113.7**	**n.a.**
Change in the ratio	0.4	-2.1	20.2	20.0	-2.0	n.a.
Contributions [2] *:*						
1. Primary balance	**1.4**	**0.5**	**7.7**	**7.7**	**4.4**	**n.a.**
2. "Snow-ball" effect	**-0.3**	**-1.1**	**12.0**	**13.4**	**-6.3**	**n.a.**
Of which:						
Interest expenditure	2.8	2.3	2.4	2.6	2.3	n.a.
Growth effect	-2.6	-1.9	9.9	9.8	-7.5	-7.2
Inflation effect	-0.6	-1.5	-0.2	1.1	-1.1	-1.9
3. Stock-flow adjustment	**-0.6**	**-1.6**	**0.4**	**-1.0**	**0.0**	**n.a.**

Notes:

[1] End of period.

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

Source :

Commission 2020 spring forecast (COM); Stability Programme (SP), Commission calculations.

3.4. Risk assessment

The macroeconomic and fiscal outlook is affected by high uncertainty due to the outbreak of the COVID-19 pandemic. The pandemic could become more severe and last longer than assumed, requiring more stringent and longer lasting containment measures. This would result in worse economic and fiscal outcomes. It could also require further fiscal policy measures. That would result in worse fiscal outcomes but help to mitigate the economic impact. An additional risk stems from the considerable size of public guarantees issued in response to the crisis.

4. Compliance with the provisions of the Stability and Growth Pact

4.1. Compliance with the debt criterion

According to the notified data, the government debt-to-GDP ratio was 95.5% of GDP in 2019 in breach of the reference value of 60% and not sufficiently diminishing and approaching the reference value at a satisfactory pace. In particular, Spain has to comply with the Minimum Linear Structural Adjustment (MLSA) as it is in transition period. The change in the structural balance in 2019 of -0.5% of GDP is not compliant with the MLSA requirement of 0.6% of GDP, indicating a deviation of 1.1% of GDP. Spain is thus not making sufficient progress towards compliance with the debt reduction benchmark by 2022. This provides evidence that there appears to be

prima facie a risk of the existence of an excessive deficit in Country in the sense of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3) TFEU analysing whether or not Spain is compliant with the debt criterion of the Treaty. The analysis suggests that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

4.2. Compliance with the deficit criterion

According to the Stability Programme, Spain's general government deficit is expected to reach 10.3% of GDP in 2020, thereby exceeding the Treaty reference value of 3% of GDP. This provides prima facie evidence of the existence of an excessive deficit in Spain for the purposes of the Treaty and the Stability and Growth Pact.

The Commission has therefore prepared a report under Article 126(3) TFEU, which analyses Spain's compliance with the deficit criterion of the Treaty. The analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

4.3. Compliance with the required adjustment path towards the MTO in 2019

The growth of nominal primary government expenditure, net of discretionary revenue measures and one-offs, exceeded the applicable expenditure benchmark of 0.6% in 2019, leading to a deviation of 1.6% of GDP in the underlying fiscal position, thus pointing to significant deviation in 2019 from the recommended adjustment path towards the MTO based on the Commission 2020 spring forecast.

The structural balance deteriorated by 0.5% of GDP in 2019, thus also pointing to significant deviation in 2019 by 1.2% of GDP from the recommended structural adjustment of 0.65% of GDP towards the MTO.[5]

Based on the outturn data and the Commission 2020 spring forecast, the ex-post assessment suggests a significant deviation from the adjustment path towards the MTO in year 2019.[6]

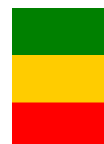
[5] In 2019, the Council considered that there was a high degree of uncertainty surrounding the output gap estimates based on the common methodology for Spain. Therefore the Council decided to deviate from the commonly agreed matrix of fiscal requirement (of 1% of GDP) and recommend to Spain a structural adjustment of 0.65% of GPD in 2020. For further details, see Box 2 of the European Commission staff assessment of the 2019 Stability Programme of Spain: https://ec.europa.eu/info/sites/info/files/economy-finance/09_es_sp_assessment_0_0.pdf.

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

Table 6: Compliance with the requirements under the preventive arm

	(% of GDP)	2019	2020		2021	
	Background budgetary indicators[1]					
(1)	Medium-term objective (MTO)	0.0	0.0		0.0	
(2)	Structural balance[2] (COM)	-4.0	-5.6		-5.2	
	Setting the required adjustment to the MTO					
(3)	Structural balance based on freezing (COM)	-2.9				
(4) = (1) - (3)	Position vis-a -vis the MTO[3]	Not at MTO				
(5)	Required adjustment[4]	0.7				
(6)	Required adjustment corrected[5]	0.7				
(8)	Corresponding expenditure benchmark[6]	0.6				
	Compliance with the required adjustment to the MTO					
		COM	**COM**	**SP**	**COM**	**SP**
	Structural balance pillar					
(8) = Δ (2)	Change in structural balance[7]	-0.5				
(9) = (8) - (6)	*One-year deviation from the required adjustment*[8]	-1.2				
	Two-year average deviation from the required adjustment[8]	-1.1				
	Expenditure benchmark pillar					
(10)	Net public expenditure annual growth corrected for one-offs[9]	4.8				
(11) = (10) - (8)	One-year deviation adjusted for one-offs[10]	-1.6				
	Two-year deviation adjusted for one-offs[10]	-1.7				
	Finding of the overall assessment	**Significant deviation**				
	Compliance with the debt criterion					
	Transition period					
	Required structural adjustment (MLSA)[11]	0.6	1.3		4.2	0.0
	Structural adjustment[12]	-0.5	-1.6	-2.2	0.4	n.a.

Legend



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

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

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

Notes

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

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

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

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

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

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

[7] Change in the structural balance compared to year t-1. Ex post assessment (for 2020-1) is carried out on the basis of Commission 2020 spring forecast.

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

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

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

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

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

Source:

Stability Programme (SP); Commission 2020 spring forecast (COM); Commission calculations.