Part I

Current developments and prospects

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KEY FINDINGS

This part describes current developments and prospects in fiscal policy, including the aggregate fiscal stance, the overall assessment of the draft budgetary plans and the budgetary implications of the autumn forecast, in line with last year's Public Finance Report.

The economic recovery is expected to continue, but remains atypical and incomplete.

- According to the Commission autumn forecast 2017, the recovery is set to continue in a changing policy context. Domestic demand is expected to remain a key driver of growth. Monetary conditions are expected to remain accommodative, while monetary policy is on a gradual road to normalisation.

- At the same time, the recovery remains incomplete and several features of the economic expansion such as a persistent labour market slack and subdued inflation are atypical, showing scars from the legacy of the crisis.

In this context, a broadly neutral fiscal stance for the euro area appears appropriate, at the aggregate level.

- The aggregate headline deficit is expected to continue its downward trend on the back of cyclical improvements. After a marginal improvement in 2017, the structural balance is projected to slightly increase in 2018 by 0.1% of GDP, pointing to the continuation of a broadly neutral fiscal stance.

- While a broadly neutral fiscal stance appears appropriate at this juncture at the aggregate level, individual Member States need to adopt stances appropriate to their specific circumstances to ensure debt sustainability while supporting growth and employment.

- The improved outlook for nominal GDP growth and historically low interest rates support the deleveraging of the public sector, but debt levels continue to vary significantly across Member States.

- The improvement in the headline budget balance is projected to be mainly driven by further decline in the expenditure-to-GDP ratio, thanks to the impact of the economic recovery on automatic stabilisers and lower interest expenditure.

All Member States need to comply with the SGP requirements for 2018.

- In 2017, no new EDPs were opened, while EDPs were abrogated for Portugal, Greece and the UK.

- In the preventive arm, a significant deviation procedure was opened for Romania in mid-2017, with a recommendation to correct a significant deviation from the adjustment path toward the MTO. However, on 5 December 2017, the Council adopted a decision establishing that Romania has failed to take effective action to correct a significant budgetary deviation. A revised recommendation for 2018 has been issued.

- None of the 2018 Draft Budgetary Plans (DBP) submitted by euro area Member States has been found in particularly serious non-compliance with the requirements of the Stability and Growth Pact (SGP). In six cases, however, the Commission found that the planned fiscal adjustment fell short of the requirements of the SGP, or appeared at risk of doing so.

1. CURRENT DEVELOPMENTS

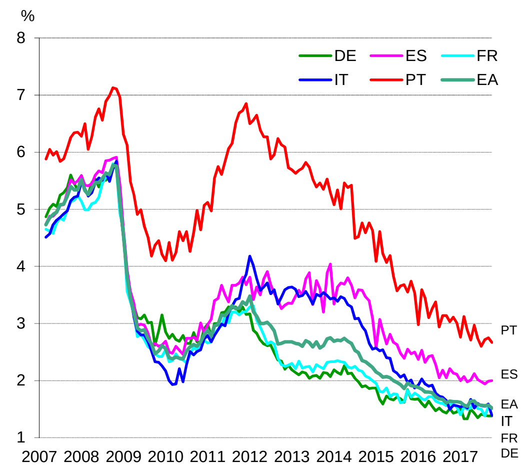
1.1. ECONOMIC DEVELOPMENTS AND PERSPECTIVE

The economic recovery has strengthened this year but remains atypical and incomplete. The EU economy continues to grow propelled by domestic demand, improving labour market conditions, increasing support from the global growth and trade rebound, and supportive financing conditions made possible by accommodative monetary policies. The pace of economic growth has increased in 2017 and the upturn has become increasingly broad-based across Member States. However, the recovery remains atypical and incomplete as evidenced by persistent labour market slack, subdued inflation and wage growth, and appears to still be supported by the exceptional tailwinds such as the ECB's accommodative monetary policy.

The ECB accommodative monetary policy has been crucial in supporting the recovery. The accommodative monetary policy conducted by the ECB ([1]) has restored the transmission channels of monetary policy and helped to lower financing cost. Euro area banks have further lowered interest rates to non-financial corporations (NFCs) and households over the past years (Graph I.1.1), contributing to the gradual recovery in lending volumes in the euro area (Graph I.1.2). More broadly, such monetary policies have also helped to ease access to funding, facilitated deleveraging, and helped the steepening of the euro area yield's curve, which has started easing pressures on bank profitability. According to the ECB, past non-standard monetary policy measures are estimated to have had a cumulated positive impact on real GDP of about 1.3pps over a three-year horizon. ([2])

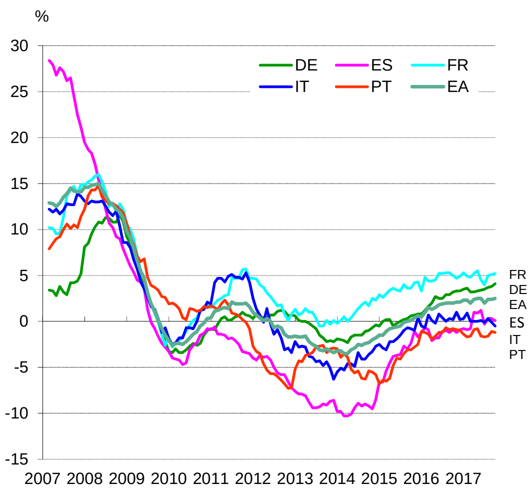
According to the Commission autumn forecast 2017, the recovery will continue in a changing policy context. After having reached 1.8% in 2016, euro area GDP growth is projected to accelerate somewhat to 2.2% in 2017 (2.3% in the EU from 1.9% in 2016).

Graph I.1.1: **Interest rates on loans to NFCs, selected Member States**



Source: European Central Bank.

Graph I.1.2: **Growth of credit to NFCs, selected Member States**



Source: European Central Bank.

This is more favourable than what expected in the Commission spring forecast 2017. In fact, the outlook for a continuation of the recovery has brightened. There is plenty of domestic fuel for continued growth, including diminished political uncertainty, very strong sentiment, ongoing job creation, and further strong global demand momentum, only slightly mitigated by the recent euro appreciation. However, slowing job creation, smaller improvement in the purchasing power of

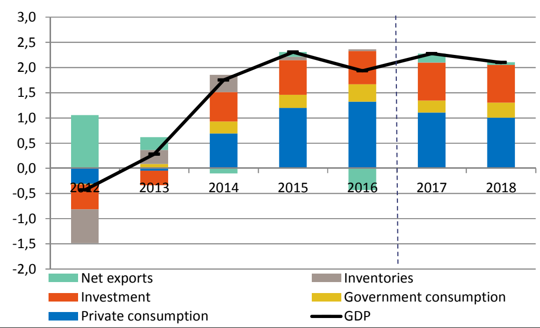
([1]) Among the different measures available, the shadow rate, as calibrated by McCoy and Clemens (2017), provide a good indication of the monetary stimulus provided by the ECB in a context of zero or even negative lower bound.

([2]) This impact was mentioned by ECB President Mario Draghi at the press conference on 9 December 2016 during the Q&A session.

households, and moderating investment growth suggest a moderation in the growth momentum to 2.1% in 2018 and to 1.8% in 2019 in both the euro area and the EU. Macroeconomic policies are set to remain supportive. Nevertheless, while the fiscal policy stance is set to remain broadly neutral, monetary policy is on a gradual road towards normalisation.

Growth has become increasingly broad-based across countries. For the first time since 2007, in 2015 and 2016 no Member State, apart from Greece, recorded negative growth figures. Over the forecast horizon, as from this year all Member States' economies are expected to grow. In particular, all economies with above-average growth between 2014 and 2016 are expected to enjoy further above-average growth over 2017-2019, with the exception of the UK. Nine Member States are expected to change their position relative to the average, whereas growth in France, Italy and Belgium, even though improving, is projected to still remain below average.

Graph I.1.3: **Real GDP growth and its components, EU**



Source: Commission autumn forecast 2017.

Private consumption is set to remain a key driver of growth. Private consumption gained some further momentum in the first half of 2017. Improved labour market conditions and corporate profits supported respectively higher labour and non-labour incomes. In turn, they sustained a strong acceleration in the nominal disposable income of households. Overall, in 2017 private consumption is forecast to continue growing, albeit at a slower pace than in the previous year. Over the next year, a projected slower employment growth is set to counterbalance some increase in wages and non-labour incomes, resulting in a stable growth in the nominal disposable income of households. On the back of only a modest uptick in inflation and a broadly stable households' saving ratio, private consumption growth should remain relatively steady next year before moderating in 2019. Generally, over the forecast horizon, private consumption is forecast to continue to contribute substantially to GDP growth, together with investment (Graph I.1.3).

Growth in investment is projected to remain sustained. Both investments in equipment and construction are expected to continue growing at a sustained pace, albeit with differences across Member States. In addition, while the construction investment-to-GDP ratio is set to remain well below its pre-crisis level, the equipment one hints at a full recovery. More generally, corporate investment is expected to be sustained by higher demand expectations, supportive financial conditions, diminished uncertainty, strong business sentiment, high capacity utilisation rates, and increasing corporate profitability as well as existing modernisation needs. In addition, deleveraging needs are gradually receding, market funding also continues to expand, and bank lending is expected to continue growing also thanks to a further easing in credit standards.

The euro area current account surplus is forecast to slightly diminish. After having increased to 3.3% in 2016, the current account surplus of the euro area is projected to marginally decline to around 3% of GDP in 2017 on the back of increased oil prices that are projected to contribute to a worsening in the terms of trade. Overall, the current account is expected to broadly stabilise over the forecast horizon. This is related to the fact that the projected solid export growth, driven by the rebound in global trade and ultimately in foreign demand, continues to be accompanied by a recovery in domestic demand. The impact of the recent euro appreciation should be small to the extent that the euro appreciation reflects an improved macroeconomic outlook and a greater attractiveness of the euro area for investment. The expected loss in market shares is only marginal inasmuch as exporters can largely absorb the appreciation in their profit margins.

Job creation is expected to continue, benefitting from the sustained domestic-demand driven expansion, albeit at a slowing pace. Employment growth is expected to remain strong in 2017, supported by the economic expansion. Over the forecast horizon, employment growth is then set to continue at slightly lower pace mainly as a result of a combination of factors: the fading of temporary fiscal incentives in some Member States, skilled-labour supply shortages in some others, and a projected strengthening of labour productivity. Consequently, further declines in unemployment rates are expected to be somewhat lower as output gaps close. The euro area unemployment rate is projected at 8.5% in 2018. Despite these projected improvements, there is currently some remaining slack in the labour market (in terms of involuntary part-time and discouraged workers). ([3]) Since job creation is set to continue, the labour market slack that weighs on wage developments can be expected to diminish over the forecast horizon.

The outlook for euro-area inflation remains below the 2% threshold, mainly related to the projection of still muted producer prices and only moderate wage increases. Euro area inflation is forecast at 1.5% in 2017, up from 0.2% in 2016, mainly driven by the impact of positive energy base effects following the recovery of oil prices from their low levels in 2016. In 2017, core inflation (i.e. inflation extracting the impact of volatile energy and unprocessed food prices) remains subdued, mainly on the back of the lagged negative impact of a prolonged period of low inflation, remaining labour market slack and weak wage growth. However, it has been showing signs of a gradual recovery. Over the forecast horizon, headline inflation is projected to dip marginally in 2018 to 1.4% – dragged down still by some negative base effects in the energy and unprocessed food prices and by the euro's appreciation that is expected to lower import prices – and to slightly pick up in 2019 to 1.6%, consistent with a projected positive output gap.

Risks surrounding the economic outlook are broadly balanced, while mainly related to the changing policy context and geopolitical tensions. Downside risks are mainly on the external side in relation to elevated geopolitical tensions, and potentially tighter global financial conditions, such as from a stronger than assumed monetary tightening in the US or an increase in global risk aversion. In the medium term, external risks also relate to a possible setback in global trade integration as well as a disorderly adjustment in China. On the domestic side, depending on the outcome of the Brexit negotiations, the transition may not be as smooth as assumed. In addition, a faster-than-assumed removal of monetary stimulus or rise in interest rates would also pose significant challenges, especially in Member States more exposed to financial fragilities. This requires a prudent handling of fiscal policy. Upside risks comes mainly from the domestic side, in relation to diminishing uncertainty, improving sentiment and a stronger and more durable growth momentum. On the external side, the synchronous rebound outside Europe could also result in a more durable and stronger-than-expected expansion in the Union.

1.2. ASSESSMENT OF SHORT-TERM DEVELOPMENTS IN FISCAL BALANCE

1.2.1. Budget deficits

Over the five years up to 2016, deficits continued to fall on the back of the consolidation packages adopted in 2011-2013 and the strengthening economic recovery. The EU headline budget deficit fell by nearly 5 pps to 1.7% in 2016, from 6.4% in 2010, and by a broadly similar extent in the euro area too. Over the same period, the structural budget deficit (i.e. the headline budget deficit corrected for cyclical factors, one-offs and other temporary measures) declined by around 3 pps, to 1.3% in the EU and 0.9% in the euro area, in 2016. However, the improvement of the structural budget deficit has slowed down significantly since 2014, implying that the recent larger improvement recorded by the headline deficit has been driven mainly by the improving economic cyclical conditions (Table I.1.1). At country level, out of the 23 Member States with headline deficits above the 3% of GDP threshold in 2010, only two continued to exceed the threshold in 2016.

Looking ahead, the aggregate headline budget balance is expected to improve further in 2017 and 2018. In the euro area, the aggregate deficit is projected to decrease to 1.1% of GDP in 2017, more than expected in previous Commission forecasts, mainly reflecting the upward revision of economic growth.

([3]) European Commission (2017c), Box I.1.1.

Table I.1.1: **Budget balances in EU Member States (% of GDP)**

	Budget balance					Structural balance					Structural primary balance				
	2014	2015	2016	*2017*	*2018*	2014	2015	2016	*2017*	*2018*	2014	2015	2016	*2017*	*2018*
BE	-3,1	-2,5	-2,5	-1,5	-1,4	-2,9	-2,2	-2,1	-1,5	-1,5	0,3	0,8	0,7	1,1	0,8
DE	0,3	0,6	0,8	0,9	1,0	0,8	0,8	0,9	0,9	0,9	2,6	2,3	2,2	2,1	2,1
EE	0,7	0,1	-0,3	-0,2	-0,4	0,0	-0,1	-0,4	-1,1	-1,4	0,1	0,0	-0,4	-1,0	-1,4
IE	-3,6	-1,9	-0,7	-0,4	-0,2	-4,0	-2,1	-1,9	-1,3	-0,5	-0,1	0,6	0,4	0,8	1,3
EL	-3,6	-5,7	0,5	-1,2	0,9	2,5	2,1	5,3	2,5	3,3	6,5	5,7	8,5	5,7	6,3
ES	-6,0	-5,3	-4,5	-3,1	-2,4	-1,6	-2,5	-3,3	-3,1	-3,1	1,9	0,6	-0,5	-0,6	-0,8
FR	-3,9	-3,6	-3,4	-2,9	-2,9	-3,0	-2,7	-2,6	-2,4	-2,7	-0,8	-0,7	-0,7	-0,6	-1,0
IT	-3,0	-2,6	-2,5	-2,1	-1,8	-1,0	-0,8	-1,7	-2,1	-2,0	3,6	3,3	2,3	1,7	1,6
CY	-8,8	-1,2	0,5	1,1	1,4	3,3	1,6	1,1	0,4	0,0	6,1	4,4	3,6	2,8	2,2
LV	-1,2	-1,2	0,0	-0,9	-1,0	-1,0	-1,6	-0,6	-1,8	-1,8	0,4	-0,3	0,4	-0,8	-1,0
LT	-0,6	-0,2	0,3	0,1	0,2	-1,3	-0,6	-0,2	-0,9	-0,9	0,3	0,9	1,1	0,2	0,0
LU	1,3	1,4	1,6	0,5	0,3	2,0	1,7	2,0	0,6	0,3	2,4	2,1	2,3	0,9	0,6
MT	-1,8	-1,1	1,1	0,9	0,5	-3,0	-2,1	0,8	0,6	0,1	-0,3	0,4	3,0	2,5	1,9
NL	-2,3	-2,1	0,4	0,7	0,5	-0,4	-0,9	0,9	0,3	-0,2	1,1	0,4	2,0	1,3	0,6
AT	-2,7	-1,0	-1,6	-1,0	-0,9	-0,8	-0,3	-1,0	-0,9	-1,0	1,7	2,0	1,1	1,0	0,8
PT	-7,2	-4,4	-2,0	-1,4	-1,4	-1,7	-2,3	-2,0	-1,8	-1,8	3,2	2,3	2,2	2,1	1,8
SI	-5,3	-2,9	-1,9	-0,8	0,0	-2,3	-1,6	-1,5	-1,6	-1,6	1,0	1,7	1,6	1,0	0,4
SK	-2,7	-2,7	-2,2	-1,6	-1,0	-2,2	-2,3	-2,0	-1,6	-1,2	-0,3	-0,5	-0,3	-0,3	0,0
FI	-3,2	-2,7	-1,7	-1,4	-1,2	-1,5	-0,7	-0,4	-1,0	-1,4	-0,3	0,4	0,7	-0,1	-0,4
EA-19	-2,6	-2,1	-1,5	-1,1	-0,9	-1,0	-1,0	-0,9	-1,0	-1,1	1,6	1,4	1,2	1,0	0,8
BG	-5,5	-1,6	0,0	0,0	0,0	-1,6	-1,1	0,1	0,0	-0,2	-0,8	-0,2	1,0	0,9	0,7
CZ	-1,9	-0,6	0,7	1,2	0,8	-0,6	-0,6	0,9	0,8	0,4	0,7	0,5	1,8	1,6	1,1
DK	1,1	-1,8	-0,6	-1,0	-1,0	-0,8	-2,1	0,2	-0,5	-0,6	0,7	-0,5	1,6	0,7	0,4
HR	-5,1	-3,3	-0,9	-0,9	-0,9	-3,1	-1,8	-0,3	-0,9	-1,9	0,4	1,7	2,9	1,9	0,8
HU	-2,7	-2,0	-1,9	-2,1	-2,6	-2,6	-2,1	-2,0	-3,2	-3,6	1,3	1,4	1,2	-0,4	-1,0
PL	-3,6	-2,6	-2,5	-1,7	-1,7	-2,8	-2,3	-2,2	-2,1	-2,3	-0,8	-0,6	-0,5	-0,5	-0,8
RO	-1,4	-0,8	-3,0	-3,0	-3,9	-0,4	-0,3	-2,2	-3,3	-4,3	1,2	1,3	-0,7	-1,8	-2,7
SE	-1,6	0,2	1,1	0,9	0,7	-0,3	0,4	1,1	0,8	0,6	0,4	0,8	1,5	1,1	0,9
UK	-5,5	-4,3	-2,9	-2,1	-1,9	-5,0	-4,4	-3,3	-2,5	-2,2	-2,4	-2,1	-0,8	0,2	0,3
EU-28	-3,0	-2,4	-1,7	-1,2	-1,1	-1,7	-1,6	-1,3	-1,2	-1,3	0,8	0,7	0,9	0,8	0,6

Note: The structural budget balance is calculated on the basis of the commonly agreed production function method (European Commission (2004)).
Source: Commission autumn forecast 2017.

The headline deficit is then set to decline further to 0.9% in 2018, after incorporating policy measures from the 2018 Draft Budgetary Plans. A parallel reduction is expected in the EU as a whole, to 1.2% in 2017 and 1.1% in 2018. However, the structural balance is projected to remain broadly stable at around -1% of potential GDP in 2017 and 2018 (only marginally expanding by 0.1 pp) in the euro area and to hover at around -1.3% in the EU as a whole.

The main driver of the current and projected improvement in the headline budget balance lies in the improving cyclical conditions based on favourable developments of private demand. Several factors contribute to the projected decline in the euro area general government balance over 2017-2018, as shown in Table I.1.2. The main driver is expected to be the change in the cyclical component of the budget, i.e. the budgetary impact of economic growth outpacing potential growth.

More specifically, the cyclical component is set to provide a positive contribution of around 0.4pp of GDP in 2017, which should marginally drop to 0.3pp in 2018. Moreover, with interest rates remaining at historical lows, the reduction in interest expenditure will continue to support the decline in the general government balance over 2017-2018, albeit more moderately than in previous years. By contrast, a negative contribution is expected from slightly worsening structural primary balances in both 2017 and 2018, given the lack of fiscal adjustment at the aggregate level.

The fiscal policy orientation was differentiated across Member States in 2016. The fiscal effort in 2016, as measured by the change in the structural balance, shows six Member States out of the 28 loosening fiscal policy while in the others fiscal policy was tightened or neutral. Half of the Member States tightened their fiscal policy in a range of 0 and 1pp while eight Member States tightened fiscal policy by at least 1pp of GDP. Among those loosening, only Romania loosened its fiscal policy by more than 1pp of GDP, while all other five Member States loosened in a range of 0 and 1pp of GDP.

Table I.1.2: **Euro area - Breakdown of the general government budget balance (% of GDP)**

	2013	2014	2015	2016	*2017*	*2018*
Total revenue (1)	46,7	46,7	46,2	46,1	46,1	45,9
Total expenditure (2)	49,8	49,2	48,3	47,6	47,2	46,8
Actual balance (3) = (1) - (2)	-3,0	-2,6	-2,1	-1,5	-1,1	-0,9
Interest (4)	2,8	2,6	2,4	2,2	2,0	1,9
Primary balance (5) = (3) + (4)	-0,2	0,1	0,3	0,6	0,9	1,0
One-offs (6)	-0,1	-0,2	-0,2	0,0	0,1	0,0
Cyclically adjusted balance (7)	-1,4	-1,2	-1,1	-0,9	-0,9	-1,1
Cyclically adj. prim. balance = (7) + (4)	1,4	1,4	1,3	1,3	1,1	0,8
Structural budget balance = (7) - (6)	-1,3	-1,0	-1,0	-0,9	-1,0	-1,1
Structural primary balance = (7)-(6)+(4)	1,5	1,6	1,4	1,2	1,0	0,8
Change in actual balance:		**0,5**	**0,5**	**0,5**	**0,4**	**0,2**
of which - Cycle		0,3	0,4	0,33	0,45	0,3
- Interest (reverse sign)		0,2	0,3	0,2	0,1	0,1
- One-offs		-0,1	0,1	0,2	0,0	-0,1
- Structural primary balance		0,2	-0,2	-0,2	-0,2	-0,2
Change in cycl. adj. primary balance		0,0	-0,2	0,0	-0,2	-0,3
Change in structural budget balance		0,3	0,0	0,0	-0,1	-0,1

Note: Differences between totals and sum of individual items are due to rounding.
Source: Commission services; for 2017 and 2018: Commission autumn forecast 2017.

Over 2017-2018, most Member States are expected to make their fiscal policy less restrictive. The vast majority of Member States is set to loosen fiscal policy over 2017-2018, with the largest expected loosening occurring in Romania by 2.3pps over the two years. Greece's structural balance is also expected to deteriorate in view of the large over-performance of the 2016 primary surplus target, the policy commitments agreed for 2017 and 2018 under the Stability Support Programme and a projected gradual closure of the output gap. Consolidation is expected to take place in eight Member States over the two years, with a maximum tightening of the structural balance of 1.4pps of GDP in Ireland over the two years. However, in several Member States, those averages conceal significant differences in the fiscal policy orientation between the two years.

1.2.2. Assessing the euro area's fiscal stance

Reflecting the country developments, the euro area fiscal policy stance was on average broadly neutral between 2014 and 2016. After a period of significant fiscal retrenchment, the fiscal stance ([4]) in the euro area, as measured by the change in the structural balance, turned broadly neutral in 2015 and in 2016. Over 2015-2016, the fiscal stance was rather differentiated across Member States: it was on average broadly neutral in Germany, Luxembourg and Slovakia, it loosened in six Member States while it was still contractionary, to differing extents, in ten Member States.

In 2017 and 2018, the fiscal stance is projected to continue being broadly neutral, based on only marginally deteriorating structural balances. The discretionary fiscal effort, ([5]) an alternative indicator to assess the fiscal policy stance, signals a slightly expansionary stance in 2017 and a broadly neutral one in 2018. ([6]) For 2017, euro area primary expenditure, net of one-offs and cyclical unemployment benefits, is projected to increase by more than nominal potential growth. This implies additional spending in 2017 – compared to neutral spending developments based on potential growth – that is projected to be only partly offset by additional structural discretionary revenues. For 2018, primary expenditure, net of one-offs and cyclical unemployment benefits, is projected to increase only marginally more than nominal potential growth. No new discretionary measures are foreseen on the revenue side, overall leading to a broadly neutral stance.

Monetary policy was accommodative when fiscal consolidation took place. The policy mix in the euro area reflects the interaction between monetary and fiscal policies, proxies for whose respective orientations can be identified in the evolution of financing conditions (e.g. real long-term interest rate) and fiscal efforts (e.g. discretionary fiscal effort). As shown in Graph I.1.4, ([7]) financing conditions eased substantially between 2011 and 2012, thanks to the

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

([5]) For further details, see Carnot and de Castro (2015).

([6]) The Commission autumn forecast 2018 incorporates the Draft Budgetary Plans submitted by the euro area Member States. However, Austria, Germany, and Spain submitted their plans on the basis of a no-policy-change scenario.

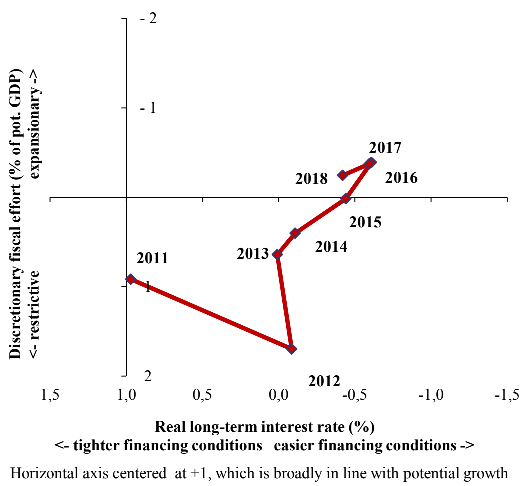
([7]) The graph refers to a time period characterised by a negative output gap for the euro area aggregate, expected to close only in 2018. When the discretionary fiscal effort is positive/negative, fiscal policy is considered expansionary/restrictive. Regarding financing conditions, a real long-term interest rate of 1% is here considered to be the natural rate in line with potential growth over the forecast horizon. A decrease/increase in the real long-term interest rate corresponds to an easing/tightening of financing conditions.

ECB's intervention in response to the crisis. Financing conditions then continued easing after 2013, but to a lesser extent. In fact, while the ECB managed to exert downward pressure on nominal long-term interest rates with its additional measures, long-term inflation expectations also declined and only started to pick up towards the end of 2016. Financing conditions are expected to turn less loose in 2018, when the euro area output gap is finally projected to close. More specifically, in 2018 average real long-term rates ([8]) are expected to increase somewhat, as the gradual increase in nominal rates is not set to be accompanied by a corresponding pick-up in inflation expectations further out. However, financing conditions should remain very supportive overall.

In light of the current economic recovery, which is strengthening but remains incomplete and atypical, a broadly neutral fiscal stance continues to appear appropriate for the euro area as a whole in 2018. The orientation of the fiscal position needs to be assessed against the double objective of long term sustainability and the short term macroeconomic stabilisation. The broadly neutral fiscal stance that emerges from the 2017 Commission autumn forecast, incorporating the Draft Budgetary Plans submitted by the euro area Member States, appears appropriate in a context of a strengthening economic recovery that remains incomplete and atypical, and of monetary policy on a gradual road towards normalisation. Nonetheless, an aggregate broadly neutral fiscal stance hides in itself a differentiated fiscal stance at country level, which can be favoured by cross-country spill-overs. In fact, in such a context, Member States in need of consolidation can do so at a lesser cost. ([9])

The sustainability of public finances needs to be ensured over the medium and long term. In terms of country contributions to the aggregate fiscal stance in 2018, a majority of euro area Member States is projected to have a slightly expansionary fiscal stance, in terms of the change in the structural balance, combined with a positive output gap. At the same time, there is no clear-cut relation between the expected fiscal effort (as per the change in the structural balance) and the level of debt-to-GDP ratios across Member States. In fact, the expected fiscal adjustment is relatively limited or even negative for some high-indebted Member States. The accumulation of public debt is historically unprecedented (outside of war episodes). Therefore, in the future, further fiscal effort may be needed in Member States characterised by high debt-to-GDP ratios, especially in case of persistently moderate growth prospects and, given their current historically low levels, rising interest rates.

Graph I.1.4: **Real long-term interest rate and discretionary fiscal effort, euro area**



Source: Commission services.

1.3. DEVELOPMENTS IN DEBT

The improved outlook for nominal GDP growth and historically low interest rates is set to support the decline in the debt-to-GDP ratio. The general government debt-to-GDP ratio of the euro area has been on a slow declining path since 2014, when it reached a peak of 94.2% (88.2% in the EU). The debt ratio is expected to follow the downward trend, falling to 89.3% of GDP (83.5% in the EU) in 2017 and to edge further down to 87.2% (81.6% in EU) in 2018 (Table I.1.3). The expected decline in the debt ratio in 2017 and 2018 is equally driven by two main factors, namely an improvement in the primary balance and the snowball effect, which combines the impact of lower interest expenditure and higher nominal

([8]) Long-term interest rates are derived from the 10-year swap rate deflated by inflation expectations.
([9]) For more details, see European Commission (2017b).

Table I.1.3: **Composition of changes in the government debt ratio in Member States (% of GDP)**

	Gross debt ratio							Change in debt ratio	Change in the debt ratio in 2016-18 due to:		
	2012	2013	2014	2015	2016	*2017*	*2018*	2016-18	1. Primary balance	2. Interest & growth	3. Stock-flow adjustment
BE	104,3	105,5	106,8	106,0	105,7	103,8	102,5	-3,2	-2,0	-2,2	1,0
DE	79,8	77,4	74,6	70,9	68,1	64,8	61,2	-6,1	-4,3	-2,6	0,0
EE	9,7	10,2	10,7	10,0	9,4	9,2	9,1	-0,8	0,6	#N/A	0,3
IE	119,6	119,4	104,5	76,9	72,8	69,9	69,1	-7,0	-3,3	-3,2	2,8
EL	159,6	177,4	179,0	176,8	180,8	179,6	177,8	2,7	-6,0	-4,2	7,1
ES	85,7	95,5	100,4	99,4	99,0	98,4	96,9	-1,0	0,7	-2,9	0,2
FR	89,6	92,4	95,0	95,8	96,5	96,9	96,9	1,2	2,2	-1,8	0,0
IT	123,4	129,0	131,8	131,5	132,0	132,1	130,8	0,6	-3,5	1,5	0,8
CY	79,7	102,6	107,5	107,5	107,1	103,0	98,3	-4,5	-7,1	-4,2	2,5
LV	41,2	39,0	40,9	36,9	40,6	39,0	35,5	2,1	0,2	-3,4	-1,9
LT	39,8	38,8	40,5	42,6	40,1	41,5	37,9	-1,1	-2,4	-3,4	3,6
LU	22,0	23,7	22,7	22,0	20,8	23,7	23,0	1,7	-1,4	-1,9	5,5
MT	67,8	68,4	63,8	60,3	57,6	54,9	51,6	-5,4	-5,1	-4,1	3,2
NL	66,3	67,8	68,0	64,6	61,8	57,7	54,9	-6,8	-3,0	-3,1	-0,8
AT	81,7	81,0	83,8	84,3	83,6	78,6	76,2	-5,7	-1,7	-2,9	-2,7
PT	126,2	129,0	130,6	128,8	130,1	126,4	124,1	-2,4	-4,6	-1,8	0,4
SI	53,8	70,4	80,3	82,6	78,5	76,4	74,1	-6,2	-3,7	-4,4	3,6
SK	52,2	54,7	53,5	52,3	51,8	50,6	49,9	-1,7	0,1	-2,6	0,6
FI	53,9	56,5	60,2	63,6	63,1	62,7	62,1	-0,9	0,7	-3,0	1,3
EA-19	91,4	93,7	94,2	92,1	91,1	89,3	87,2	-2,9	-1,9	-2,2	0,3
BG	16,7	17,0	27,0	26,0	29,0	25,7	24,3	-0,3	-1,8	-0,9	-2,0
CZ	44,5	44,9	42,2	40,0	36,8	34,6	33,3	-5,4	-3,5	-2,2	2,3
DK	44,9	44,0	44,0	39,5	37,7	36,1	35,5	-3,4	-0,3	-0,5	-1,4
HR	70,7	81,7	85,8	85,4	82,9	80,3	77,4	-5,2	-3,7	-1,8	0,1
HU	77,6	76,0	75,2	74,7	73,9	72,6	71,5	-2,2	-0,8	-3,6	2,1
PL	53,7	55,7	50,2	51,1	54,1	53,2	53,0	2,1	0,5	-3,2	1,6
RO	37,3	37,8	39,4	37,9	37,6	37,9	39,1	0,0	3,9	-2,4	0,0
SE	38,1	40,8	45,5	44,2	42,2	39,0	36,6	-5,2	-2,3	-3,4	0,0
UK	84,5	85,6	87,4	88,2	88,3	86,6	85,3	-1,6	-1,1	-0,9	-1,0
EU-28	85,2	87,3	88,2	86,1	84,8	83,5	81,6	-2,6	-1,6	-1,2	-0,3

Note: Differences between the sum and the total of individual items are due to rounding.
Source: Commission services.

GDP growth. In particular, the average nominal GDP growth over 2017-2018 is projected to outpace the average implicit interest rate paid on debt, ultimately helping to reduce the debt ratio. Stock-flow adjustments play at the margin, instead, with a debt-increasing contribution in the euro area and a debt-decreasing one in the EU as whole.

The debt-to-GDP ratios are projected to be on a downward path in almost all Member States, but debt levels continue to vary significantly. Over 2017-2018, the debt-to-GDP ratio is projected to decline in all Member States, other than Luxemburg (23% in 2018), Romania (39.1%), and France (96.9%). The reduction in the debt ratio is expected to be supported by debt-decreasing snowball effects in all Member States except Italy. In 2018 the debt-to-GDP ratio is set to remain above 100% in four Member States (Belgium, Greece, Italy and Portugal), and above 90% in three other Member States (Spain, France and Cyprus). There are eight Member States with debt between 60% and 90%, while the remaining thirteen are expected to be below the 60% of GDP threshold in 2018.

High government debt is problematic for an economy. The literature confirms that high government debt may constitute a drag on growth and on the recovery. ([10]) Moreover, high debt Member States are more subject to tensions in financial markets, which can put them more easily under stress from exogenous interest rate shocks.

1.4. COMPOSITION OF PUBLIC FINANCES

Between 2013 and 2016, the reduction in the headline budget deficit-to-GDP ratio was driven by a larger fall in the expenditure ratio as compared to the marginal drop in the revenue

([10]) See Chudik et al. (2017) and Jordà et al. (2016).

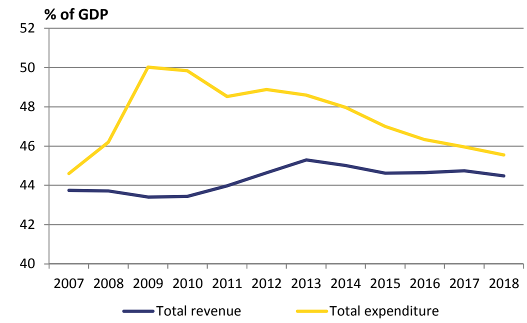
ratio. In the EU, the expenditure-to-GDP ratio decreased by 2.3pps, from 48.6% in 2013 to 46.3% in 2016 (Table I.1.4). Around one-fourth of that decline is explained by lower interest expenditure. Over the same period, revenues fell only by a half pp to 44.7%. In the euro area, a similar trend is observed. Expenditures declined by 2.2pps to 47.6% in 2016 while revenues fell by a half pp to 46.1%. This follows the period between 2011 and 2013, when the fiscal consolidation conducted was driven mainly by revenue increases, in particular in the euro area. In the EU as a whole, the revenue to-GDP ratio increased by almost two pps from 43.5% in 2010 to 45.4% in 2013 despite the operation of automatic stabilisers (see Part III). The expenditure-to-GDP ratio fell by slightly more than a pp from 49.9% to 48.7%. In the euro area, the revenue-to-GDP ratio increased by more than two pps from 44.3% in 2010 to 46.7% in 2013 while the expenditure-to-GDP ratio fell by less than a pp from 50.5% to 49.7%. This may also partly reflect a longer time-span needed to see the effects of spending containment.

Over 2017-2018, a further decline in the expenditure ratio is expected to drive the improvement in the headline budget balance. The reduction in the general government deficit-to-GDP ratio is expected to be driven by a larger fall in the expenditure ratio as compared to the drop in the revenue ratio in both the euro area and EU as a whole (Graph I.1.5). The expenditure-to-GDP ratio in the EU is set to decline by 0.8pp to 45.5% in 2018 (46.8% in the euro area), while the revenue-to-GDP ratio is set to decline only marginally, to 44.5% in 2018 (45.9% in the euro area). Part of the decline in the expenditure-to-GDP ratio is explained by lower interest expenditure, which is set to fall by 0.2pp of GDP, from 2.1% of GDP in 2016 to 1.9% in 2018. The other part of the decline in the expenditure ratio is mainly explained by improving cyclical conditions. Notably, actual GDP is forecast to grow more than potential GDP over 2017-2018, thus entailing a dampening impact on the expenditure-to-GDP ratio, other things being equal. At the same time, as labour markets are set to improve, lower unemployment benefits will also contribute to the reduction in the expenditure ratio over the forecast period.

The euro area aggregate trend reflects broadly-based developments in the Member States. The expenditure ratio is projected to decline over 2017–2018 in all euro area Member States except for Estonia, where it remains stable, and Latvia and Luxembourg, where only a marginal increase is expected. The revenue ratio is also projected to decline over 2017-2018 in the majority of euro area Member States except for Germany, France and the Netherlands, where remains stable, and Spain, Cyprus and Portugal, where it increases. The trends are more heterogeneous among non-euro area Member States. In fact, both the revenue and expenditure ratios are projected to decline over 2017-2018 in three non-euro area Member States. In Hungary, while the revenue ratio is expected to fall, the expenditure one is set to increase. For the remaining five, both revenue and expenditure ratios are expected to increase over 2017-2018. Overall, the expected cumulated change in the expenditure ratio ranges from a 3.4pps fall in Finland to a 2.8pps increase in Romania. Similarly, the expected cumulated change in the revenue ratio ranges from a 2.9pps fall in Finland to a 1.5pps increase in Bulgaria.

Most of the decline in the revenue ratio appears to be of a structural nature, while this is only marginally the case on the expenditure side. Looking at the projected change from 2016 to 2018, the slight drop in the structural revenue ratio is broadly in line with the change in nominal terms both with respect to the EU and the euro area aggregates, the difference being explained by modest expansionary tax measures.

Graph I.1.5: **Trends in revenue and expenditure since the crisis (% of GDP)**



Source: Commission services; for 2017 and 2018: Commission autumn forecast 2017.

On the expenditure side, however, only a minimal 0.1pp of the decline in the ratio in the EU and none in the euro area is estimated to be structural. This reflects the diverse nature of the main factors

Table I.1.4: **Government revenue and expenditure (% of GDP)**

	Revenue							Expenditure						
	2012	2013	2014	2015	2016	*2017*	*2018*	2012	2013	2014	2015	2016	*2017*	*2018*
BE	51,6	52,7	52,1	51,3	50,7	50,9	50,3	55,9	55,8	55,2	53,8	53,2	52,4	51,8
DE	44,3	44,5	44,6	44,5	45,0	45,1	45,0	44,3	44,7	44,3	43,9	44,2	44,2	44,0
EE	39,0	38,3	39,1	40,3	40,3	40,1	40,2	39,3	38,5	38,4	40,2	40,6	40,3	40,7
IE	33,9	34,1	33,9	26,9	26,4	26,0	25,9	41,9	40,2	37,5	28,8	27,1	26,4	26,0
EL	46,5	49,0	46,6	48,1	50,2	49,2	48,3	55,4	62,2	50,2	53,8	49,7	50,4	47,4
ES	37,6	38,6	38,9	38,5	37,7	37,9	38,0	48,1	45,6	44,8	43,8	42,2	41,1	40,4
FR	52,0	52,9	53,1	53,1	53,0	53,1	53,0	56,8	57,0	57,1	56,7	56,4	56,0	55,9
IT	47,8	48,1	47,9	47,7	46,9	47,0	46,7	50,8	51,1	50,9	50,2	49,4	49,1	48,5
CY	36,1	36,4	39,5	39,0	38,8	39,6	39,6	41,6	41,6	48,2	40,2	38,3	38,5	38,2
LV	36,8	36,8	37,1	37,3	37,4	37,3	36,7	38,0	37,7	38,3	38,5	37,4	38,2	37,7
LT	33,0	32,9	34,0	34,6	34,5	34,5	34,3	36,1	35,5	34,6	34,9	34,2	34,4	34,0
LU	44,4	44,3	43,1	42,8	43,8	43,3	43,0	44,1	43,3	41,8	41,5	42,1	42,8	42,6
MT	39,3	39,5	39,6	40,1	39,2	39,0	38,1	42,7	42,0	41,3	41,2	38,0	38,1	37,6
NL	43,2	43,9	43,9	42,8	43,8	43,9	43,8	47,1	46,3	46,2	44,9	43,4	43,2	43,3
AT	49,0	49,7	49,6	49,9	49,1	48,8	48,3	51,2	51,6	52,3	51,0	50,7	49,8	49,2
PT	42,9	45,1	44,6	43,8	43,0	43,4	43,2	48,5	49,9	51,8	48,2	45,0	44,8	44,6
SI	44,5	44,8	44,3	44,9	43,3	42,8	42,5	48,5	59,5	49,6	47,7	45,1	43,6	42,5
SK	36,3	38,7	39,3	42,5	39,3	38,9	38,2	40,6	41,4	42,0	45,2	41,5	40,6	39,2
FI	54,0	54,9	54,9	54,2	54,0	52,5	51,1	56,2	57,5	58,1	56,9	55,8	53,9	52,3
EA-19	46,1	46,7	46,7	46,2	46,1	46,1	45,9	49,7	49,8	49,2	48,3	47,6	47,2	46,8
BG	34,1	37,2	36,6	39,1	34,9	36,2	36,4	34,5	37,6	42,1	40,7	35,0	36,2	36,4
CZ	40,5	41,4	40,3	41,1	40,1	40,4	40,4	44,5	42,6	42,2	41,7	39,4	39,2	39,5
DK	54,5	54,6	56,4	53,1	52,9	52,0	51,5	58,0	55,8	55,3	54,8	53,5	53,0	52,4
HR	42,1	42,4	42,9	44,3	46,3	45,4	44,9	47,3	47,7	48,0	47,6	47,2	46,3	45,8
HU	46,1	46,6	46,8	48,2	44,8	45,5	44,6	48,5	49,3	49,5	50,2	46,7	47,5	47,2
PL	39,1	38,5	38,7	38,9	38,7	39,5	39,9	42,9	42,6	42,3	41,6	41,2	41,3	41,6
RO	33,6	33,3	33,5	34,9	31,0	30,8	31,7	37,2	35,4	34,9	35,7	34,0	33,8	35,5
SE	50,4	50,6	49,6	49,8	50,6	49,7	48,9	51,4	52,0	51,1	49,6	49,5	48,8	48,2
UK	37,8	38,8	37,7	38,1	38,6	38,9	38,4	46,0	44,2	43,2	42,4	41,5	41,0	40,3
EU-28	44,6	45,3	45,0	44,6	44,7	44,7	44,5	48,9	48,6	48,0	47,0	46,3	46,0	45,6

Note: Differences between the sum and the total of individual items are due to rounding.
Source: Commission services.

driving the expenditure ratio, namely the impact of the economic recovery on automatic stabilisers and lower interest expenditure.

In terms of composition of public spending, the decline in the expenditure ratio is driven by current expenditure. Public investment is expected to benefit from the implementation of the 2014-2020 programming period of EU funding as well as from the Investment Plan for Europe. Nonetheless, the ratio of public investment to GDP of the EU aggregate is projected to increase only marginally over the forecast horizon (to 2.6% in 2018, from 2.5% in 2016) and thus remain below its pre-crisis average (3.2% of GDP over 2000-2007).

In terms of composition of public revenues, reported tax expenditures add up to a non-negligible share of GDP in many Member States. Tax expenditures are reductions in government revenue through preferential tax treatment of specific groups of tax payers or specific economic activities. According to Kalyva et al. (2014), the sum of all tax expenditures as a percentage of GDP could amount to from 2% up to 4% of GDP in some Member States. Nevertheless, in about half of the Member States that report those figures ([11]) tax expenditures as a percentage of GDP stand below 1% of GDP. The objectives of tax expenditures often include employment creation, innovation, education, entrepreneurship, home ownership and income redistribution. However, tax expenditures are not necessarily the most cost-efficient instrument to achieve those objectives and may in some cases lead to severe economic impacts and distortions. Cost-benefit analysis and in-depth reviews are warranted in many cases to enhance the efficiency of the overall revenue system. Box I.1.1 recalls the importance of reporting tax expenditures and provide an updated overview of the current reporting in Member States.

([11]) For the limitations of the measure indicated and the limited sample of countries where data are available see also OECD (2010).

Box I.1.1: National reporting on tax expenditures and characteristics of regular reporting practices

Tax expenditures are reductions in government revenue through preferential tax treatment of specific groups of tax payers or specific economic activities. EU Member States make ample use of tax expenditures with a wide variety of aims including employment creation, innovation, education, entrepreneurship, home ownership and income distribution. While tax expenditures may be motivated by relevant economic or social goals, they are not necessarily the most cost-efficient instrument and may in some cases lead to severe economic impact and distortions (European Commission (2014)).

The European Commission and other international organisations ([1]) regularly emphasise the need to report on and review tax expenditures as part of national budget management given their implication on fiscal consolidation as well. In this line, governments should describe clearly the use of tax expenditures in their tax systems, and provide an explanation of the main policies in place. This should include defining the benchmark situation (from which the tax expenditure is a deviation), the estimated cost of the measure in lost revenue and its coverage. In addition to reporting tax expenditures in the budget, governments should also carry out regular evaluations of the tax expenditures they apply. The evaluations may be conducted by independent bodies or commissions, if this is thought more appropriate, and should assess the efficiency and cost effectiveness of current tax expenditures. Member States may choose to carry out more extensive evaluations on a less frequent basis (i.e. less than once a year).

In this context, under the EU Directive on requirements for budgetary frameworks (2011/85/EU), Member States have been required since 1 January 2014 to publish detailed information on the effect of tax expenditures on revenue (Article 14(2)). However, the Directive does not specify a standardised procedure for evaluating tax expenditures.

The analysis presented in Table I.1.a provides an updated overview of the current reporting on tax expenditures in EU Member States (based primarily on European Commission (2016)). Table I.1.a shows in which Member States reporting on tax expenditures is required under national law, and also gives further detail on the coverage of national reporting: the time period reported on and the categorisation of tax expenditures used. The information provided shows that in 2016, 23 Member States now regularly report on tax expenditures. Reporting practices do, however, vary widely across countries, and the reports produced therefore also vary, in terms of their presentation, depth and coverage.

In 2016, a national legal requirement to report on tax expenditures was in place in 19 of the 23 Member States that currently report regularly. Moreover, there are a few Member States, where the legal obligation was laid down or is likely to be adopted (e.g. HR, CY), but the regular practice has yet to be established. Reporting on tax expenditures varies in terms of the levels of government covered. While tax expenditures administered by central government are always covered, those related to local taxes and social security funds appear to be generally less well documented mainly due to the heterogeneity of the taxes applied (European Commission (2015)). Member States' reporting practices do, however, share some general common features:

a) Reporting is typically carried out on an annual basis, by the Ministry of Finance, the Ministry for the Economy or the tax authorities, or by services reporting to one of these. b) tax expenditures are most often identified in reference to their tax category or tax base c) expenditures are often grouped according to the type of tax measure (e.g. allowances, rate relief or exemptions), the purpose (e.g. supporting low-income earners or reducing the tax on certain types of housing) or the sector (e.g. households, businesses or agriculture).

([1]) See, e.g., IMF (2011), OECD (2010) and European Commission (2015). For a more detailed discussion, see Bauger (2014).

(Continued on the next page)

Box (continued)

However, the time period covered and the categorisation (2) of tax expenditures used varies greatly. Similarly, some countries' reporting is backward-looking and others' forward-looking. d) the reports generally use the "revenue forgone" method for calculating tax expenditures, but there are significant differences in methodology (e.g whether revenue is estimated on a cash or accruals basis). e) some Member States link tax expenditures to the expenditure side of the budget and the relevant reports are discussed in the Parliament (e.g. Belgium, Denmark, Germany, Greece, Spain, France, Austria, Portugal and Finland).

Table I.1.a: **National reporting on tax expenditures and characteristics of regular reporting practices**

Country	Legal requirement	National reporting		Time coverage	Categorization
		Regular (annual)	Non-regular (latest)		
BE	X	X		t-5, t-4, t-3, t-2, t-1	tax base, purpose
BG	X	X	2012		
CZ			2015		
DK	X	X	2009	various years	tax base
DE	X	X	2009	t-2, t-1, t, t+1	tax base, type of tax measure, purpose, sector
EE		X		t, t+1	tax base, purpose
IE	X	X	2010	t-1, t	type of tax measure
EL	X	X		t-2	tax base, purpose, sector
ES	X	X		t+1	tax base, type of tax measure, expenditure category
FR	X	X	2011	t-1, t, t+1	tax base, expenditure category
IT	X	X	2010/11	t, t+1, t+2	type of tax measure, purpose, sector
NL	X	X		t-2, t-1, t, t+1, t+2, t+3, t+4	tax base, sector, law, policy area
AT	X	X		t-3, t-2, t-1	tax base, sector
PT	X	X		t-2, t-1, t, t+1	tax base, purpose
SK	X	X		t-2, t-1, t, t+1, t+2, t+3	tax base
FI		X	2010	t-1, t, t+1	tax base, purpose
LV	X	X		t-2, t-1	tax base
LU	X	X		t	type of tax measure
LT	X	X		t+1	purpose
RO	X	X		t-1, t, t+1, t+2	tax base
HU	X	X		t+1	tax base
PL		X		t-1	tax base, purpose
SE	X	X		t-1, t+1, t+2	tax base, type of tax measure, purpose/sector (expenditure category or technical tax expenditure)
UK		X		t-1, t	tax base
BE	X	X		t-5, t-4, t-3, t-2, t-1	tax base, purpose
BG	X	X	2012		
CZ			2015		
DK	X	X	2009	various years	tax base

Source: Commission services based on national sources.

(2) ESA 2010 introduces explicit new rules on how tax credits are to be recorded in national accounts. This is a significant change from the method previously used under ESA 95. Tax credits that constitute non-contingent government liabilities are now treated as expenditure instead of as a reduction in tax revenue, and are recorded at the moment when a government recognises the obligation to pay. The new system of recording on a gross (rather than a net) basis leads to an increase in total revenue and in total expenditure, compared to the approach used in the past.

(Continued on the next page)

Box (continued)

Finally, some Member States have also recently produced one-off tax expenditure reviews or inventories. These reports are generally more extensive, produced in some cases by independent experts (e.g. in Denmark, Ireland Finland, and UK) and may include reviews of or opinions on specific tax expenditure items.

Overall, information on the tax expenditures in force or planned in Member States is still often incomplete, and the data provided are not fully comparable across countries and over time. This makes it more difficult to identify possible improvements to fiscal and tax arrangements, and can thus make fiscal policymaking less effective and efficient. This can, in turn, affect the strength of countries' national budgetary frameworks as – more or less hidden – losses of revenue may weaken the positive effect to be gained from new measures increasing transparency on the expenditure side. National provisions adopted to transpose the EU Directive on requirements for budgetary frameworks (2011/85/EU) and the changes that entered into force under the current European System of Accounts (ESA 2010) have already improved budgetary transparency, which is expected to strengthen further by the rigorous implementation of these measures.

2. IMPLEMENTATION OF FISCAL SURVEILLANCE

The EU fiscal framework, as laid down by the Stability and Growth Pact (SGP), aims at ensuring budgetary discipline through two main requirements. First, Member States are required to keep their general government deficit and debt positions below the reference values of 3% and 60% of GDP respectively, and to prompt their correction if those two criteria are temporarily not fulfilled. ([12])([13]) Second, they are required by the preventive arm of the SGP to achieve and maintain their medium-term budgetary objective (MTO), which corresponds to a cyclically-adjusted target for the budget balance, net of one-offs and temporary measures. ([14]) Country-specific MTOs are defined so as to secure the sustainability of public finances and allow the automatic stabilisers to operate without breaching the reference value for the deficit as defined in the Treaty.

2.1. THE EXCESSIVE DEFICIT PROCEDURE

The Excessive Deficit Procedure (EDP) ensures that Member States correct their excessive deficit and debt positions, measured against the reference values of 3% and 60% of GDP, thus operationalising the requirements set in the Treaty. ([15]) This section focuses on the implementation of the EDP since the previous Report on Public Finances was published. The country-specific developments are summarised in Tables I.A1.1, to I.A1.4. ([16])

Currently, only two Member States remain in EDP (France and Spain). According to the Commission autumn forecast 2017, only Spain would have a deficit above 3% of GDP at the end of 2017.

2.1.1. Euro area Member States

The Commission adopted reports in accordance with Article 126(3) TFEU for Italy on 22 February 2017 and for Belgium and Finland on 22 May 2017.

In the case of Italy, the Commission concluded on 22 February 2017 based on notified data for 2015 and the 2017 Commission winter forecast that the debt criterion as defined in the Treaty should be considered as not complied with at that stage. Gross government debt reached 132.3% of GDP in 2015, well above the 60% Treaty reference value, and Italy did not make sufficient progress towards compliance with the debt reduction benchmark in 2015. Moreover, Italy was not projected to comply with the debt rule

([12]) Article 126 TFEU lays down the Excessive Deficit Procedure, which is further specified in Council Regulation (EC) 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure", amended in 2005 and 2011, which represents the corrective arm of the SGP.
Relevant legal texts and guidelines can be found at: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/legal-basis-stability-and-growth-pact_en

([13]) In particular, a Member State is not compliant with the debt criterion if its general government gross debt is greater than 60% of GDP, and it is not sufficiently diminishing and approaching 60% of GDP at a satisfactory pace.

([14]) The preventive arm of the SGP is contained in Council Regulation (EC) 1466/97 "on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies", which was amended in 2005 and 2011. Together with the procedure for the avoidance of excessive government deficit laid down in Article 126 TFEU, further specified in Council Regulation (EC) 1467/97, in European Parliament and Council Regulation (EU) No 1175/2011, Council Regulation (EU) No 1177/2011 and Regulation (EU) No 1173/2011 on the effective enforcement of budgetary surveillance in the euro area, form the SGP.

([15]) The concept of *"sufficiently diminishing"* and *"satisfactory pace"* is crucial in the assessment of compliance with the debt criterion for Member States whose general government gross debt is greater than 60% of GDP. Those requirements are specified in Regulation 1467/97 as being fulfilled if *"the differential [of the general government gross debt] with respect to the reference value has decreased over the previous three years at an average ½th per year as a benchmark"*. The Regulation provides that *"the requirement under the debt criterion shall also be considered to be fulfilled if the budgetary forecasts of the Commission indicate that the required reduction in the differential will occur over the three-year period encompassing the two years following the final year for which data are available"*. It further indicates that *"the influence of the cycle on the pace of debt reduction"* should be taken into account. However, the opening an EDP on that basis is not automatic, as the Commission has to take into account a long list of relevant factors detailed in Article 2(3) in Regulation (EC) No 1467/97.

([16]) All the country-specific developments regarding the Excessive Deficit Procedure can be followed up at: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/excessive-deficit-procedures-overview_en either in 2016 or in 2017. After examining all relevant factors, namely (i) the unfavourable but improving macroeconomic conditions and low inflation, (ii) the risk of non-compliance with the requirements under the preventive arm in both 2016 and 2017, and (iii) the observed marked slowdown in the implementation of growth-enhancing structural reforms, the report concluded that the debt criterion should be considered as not complied with, unless the government credibly enacted additional structural measures by April 2017 to ensure broad compliance with the preventive arm. However, the Commission announced that the decision on whether to recommend opening an EDP would only be taken on the basis of the Commission 2017 spring forecast, taking into account outturn data for 2016 and the implementation of the fiscal commitments made by the Italian authorities in February 2017. Following the enactment of those measures, the Commission indicated that no further assessment of compliance with the debt criterion in 2015 would be needed, and a new assessment of compliance with the debt criterion in 2016 based on the Commission 2017 autumn forecast was announced. In the context of the assessment of Italy's 2018 Draft Budgetary Plan, on 22 November the Commission sent a letter to the authorities emphasising that Italy's high public debt remains a key vulnerability that is a source of common concern for the euro area as a whole. In its letter, the Commission also recalled the conditions under which the Commission had concluded that a debt-based EDP should not be opened, and noted that these conditions appear at risk. The Commission announced that it intends to reassess Italy's compliance with the debt criterion in spring 2018, based on 2017 outturn data and the final 2018 budget.

In the case of Belgium, the Commission concluded on 22 May 2017 based on notified data for 2016 and the 2017 Commission spring forecast that the debt criterion as defined in the Treaty should be considered as complied with. Gross government debt reached 105.9% of GDP in 2016, well above the 60% of GDP Treaty reference value and Belgium made insufficient progress towards compliance with the debt reduction benchmark in 2016. Moreover, Belgium was not projected to comply with the debt reduction benchmark in 2017 and 2018 according to both Belgium's 2017 Stability Programme and the 2017 Commission spring forecast. However, after examining all relevant factors, namely (i) the previously unfavourable but improving macroeconomic conditions, (ii) the fact that the projected significant deviation in 2016 and 2017 together could still be corrected in 2017, and (iii) the implementation of substantial growth-enhancing structural reforms, the report concluded that the debt criterion should be considered as complied with.

In the case of Finland, the Commission concluded on 22 May 2017 based on notified data for 2016 and the 2017 Commission spring forecast that the debt criterion as defined in the Treaty should be considered as complied with. General government gross debt amounted to 63.6% of GDP in 2016, above the Treaty reference value. Moreover, both Finland's 2017 Stability Programme and the Commission spring forecast 2017 projected that Finland would not comply with the debt reduction benchmark. Nevertheless, after considering all relevant factors, namely (i) the projected compliance with the recommended adjustment path towards the MTO in 2017 and 2018, (ii) the fact that the debt corrected for the effects of the cycle would have remained just below the 60% reference rate in 2016, and (iii) the positive impact of structural reforms on debt sustainability in the medium to long term, the report concluded that the debt criterion should be considered as complied with.

While no new EDPs were opened, the EDP was abrogated for Portugal on 16 June 2017 and for Greece on 25 September 2017 as their deficits had been brought below 3% of GDP in a durable manner. ([17])

2.1.2. Non-euro area Member States

On 16 June 2017, the EDP for Croatia was abrogated. ([18]) Furthermore, the Council decided to abrogate the EDP for the United

([17]) OJ L 174, 7.7.2017, p. 19-21 http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=uriserv:OJ.L_.2017.174.01.0019.01.ENG ; OJ L 256, 4.10.2017, p. 5–8 http://data.consilium.europa.eu/doc/document/ST-11240-2017-INIT/en/pdf

([18]) OJ L 256, 4.10.2017, p. 5-8 http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2017.172.01.0008.01.ENG

Kingdom on 5 December 2017. ([19]) For both Member States, the Commission concluded that the deficit had been brought below the Treaty reference value of 3% of GDP in a durable manner.

No new EDPs were opened for non-euro area Member States during 2017. Government deficits in non-euro area members of the EU remained below 3% of GDP in 2016 and are expected to remain so in 2017 according to the Commission autumn forecast 2017, with the exception of Romania, where general government deficit is projected to breach the 3% of GDP reference value (see Section I.2.2).

2.2. THE SIGNIFICANT DEVIATION PROCEDURE

The Significant Deviation Procedure (SDP) is foreseen in case a Member States has deviated significantly from its MTO or the adjustment path towards it. If such a deviation is noticed based on outturn data, the Commission shall issue a warning and, within one month, the Council shall address a recommendation towards the Member State to take measures to address the deviation.

On 16 June 2017, following a recommendation by the Commission on 22 May 2017, the Council adopted a recommendation with a view to correcting the significant observed deviation from the adjustment path toward the MTO in Romania. ([20]) The case of Romania marks the first time that the Significant Deviation Procedure (SDP) has been applied since its introduction into the EU economic governance framework in 2011. Based on the Commission spring forecast 2017 and the 2016 outturn data, Romania was found to have deviated significantly from its MTO, and was recommended to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2017. This would correspond to an annual structural adjustment of 0.5% of GDP. Romania was also recommended to use any windfall gains for deficit reduction, while budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner. Finally, Romania was recommended to report on action taken by 15 October 2017. On 16 October, the Romanian authorities submitted the report on action taken, and on 24 October, the Commission reported to the Council on its enhanced surveillance mission that took place on 26-27 September 2017, on the basis of Article 11(2) of Regulation (EC) 1466/97. On 22 November, the Commission adopted a recommendation for a Council decision establishing that no effective action has been taken by Romania in response to the Council Recommendation of 16 June 2017. The Commission's overall assessment based on its autumn forecast 2017 led to the conclusion that Romania has not taken effective action, as the structural balance is set to deteriorate by 1.1% of GDP in 2017, compared to the recommended improvement of 0.5% of GDP. Moreover, the Commission 2017 autumn forecast projects a general government deficit of 3.3% of GDP in 2017, which is above the 3% of GDP Treaty reference value. On 22 November 2017, the Commission proposed also a revised recommendation to the Council, which calls on Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2018. This corresponds to an annual structural adjustment of at least 0.8% of GDP in 2018. As in May 2017, Romania was also recommended to use any windfall gains for deficit reduction, while budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner. Romania should report to the Council by 15 April 2018 on action taken. The Council adopted these recommendations on 5 December 2017. ([21])

([19]) Council Decision abrogating Decision 2008/713/EC on the existence of an excessive deficit in the United Kingdom, 5.12.2017, http://data.consilium.europa.eu/doc/document/ST-14852-2017-INIT/en/pdf

([20]) OJ L 216, 6.7.2017, p.1-2 http://data.consilium.europa.eu/doc/document/ST-9999-2017-INIT/en/pdf

([21]) Council Recommendation with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania, 5.12.2017, http://data.consilium.europa.eu/doc/document/ST-14853-2017-INIT/en/pdf .

2.3. THE EUROPEAN SEMESTER AND THE FISCAL COUNTRY-SPECIFIC RECOMMENDATIONS

Member States submitted the 2017 Stability or Convergence Programmes (SCPs) in April this year thereby updating their medium-term fiscal plans. Most Member States plan to move in the direction of or remain at their MTOs. Six Member States which envisaged an overall deterioration of their structural balance in the 2017 SCPs, were at or above their MTO and planned to continue adhering to them throughout the programme horizon. Only Cyprus, which was at its MTO in 2016, planned a fiscal path away from its MTO, based on the recalculated structural balance. At the same time, all Member States that had not yet reached their MTO, intended to pursue a structural adjustment towards it, with the exception of Hungary and Romania. By the end of the programme horizon, fifteen Member States planned a (recalculated) structural balance at or above their MTO, and another three expected to be in its vicinity, while Romania and Spain would maintain a distance to their MTO of more than 1% of GDP through 2020. Compared to 2016, five Member States (Belgium, Estonia, Ireland, Hungary, and Austria) changed to a less-demanding MTO for the 2017 budgets and beyond. Four Member States (Luxembourg, Portugal, Slovenia, and the United Kingdom) moved to a more demanding MTO in 2017, triggered by new minimum MTOs being more stringent than the 2016 MTOs. The United Kingdom did not nominate an MTO, and the one set by Slovenia is deemed not sufficiently stringent, so in these two cases the minimum MTOs are considered as their MTOs. For Croatia, the 2017 Convergence Programme marked the first time the MTO was set.

The adjustment towards the MTO throughout the programme period would be somewhat back-loaded in the euro area. The Stability or Convergence Programmes planned to keep the structural balance broadly stable in 2017, with a deterioration of 0.1% of GDP in the EU and an improvement of 0.1% in the euro area. From 2018 onwards, the Stability Programmes projected a fiscal contraction with an average annual tightening of around ¼% of GDP in the euro area. In the EU, consolidation in structural terms was projected at ½% of GDP in 2018 and 2019 before slowing down in 2020, with a growing number of Member States having reached their MTO.

On 11 July 2017, based on the information provided in the 2017 SCPs (and in the National Reform Programmes), the Council adopted country-specific recommendations (CSRs) as part of the 2017 European Semester. The 2017 CSRs were addressed to 27 of the 28 Member States and to the euro area as a whole, with the latter having already been endorsed by the Council on 27 January to allow the euro area dimension to be taken into account in the Member States' National Reform and Stability Programmes and the CSRs. Greece did not submit a Stability Programme and did not receive CSRs, as the surveillance takes place in the context of its macroeconomic adjustment programme. ([22])

In the area of fiscal policy, Member States were recommended to comply with the requirements of the SGP. For Member States in the corrective arm, the recommendations reiterated the need to ensure compliance with the Council recommendations under the EDP. Member States in the preventive arm were recommended to remain at their MTO or ensure sufficient progress towards it in line with the provisions of the Pact. However, the recommendations stated that, as foreseen in Regulation (EC) No 1466/97, the assessment of the budgetary plans and outcomes should take account of the Member State's budgetary balance in the light of the cyclical conditions. Therefore, Member States, for which the requirements of the preventive arm of the Stability and Growth Pact translate into a substantial fiscal effort (at least 0.5% of GDP) for 2018, were recommended to give consideration to achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of the Member States' public finances when taking policy action. Some Member States with high debt levels were also recommended to use windfall gains to accelerate the reduction of the debt ratio. On the revenue side, the recommendations called for a shift of the

([22]) According to Article 12 of Regulation (EU) No 472/2013, where a Member State is subject to a macroeconomic adjustment programme, it shall be exempt from the monitoring and assessment of the European Semester for economic policy coordination under Article 2-a of Regulation (EC) No 1466/97 for the duration of that programme.

tax burden towards taxes less detrimental for growth, and for improvement in tax compliance as well as a broadening of the tax base in specific cases. On the expenditure side, Member States were recommended to target both higher efficiency and the performance of individual expenditure items. The ageing population called for reforms in long- term care, pensions and health care ensuring the sustainability and/or the adequacy of the social security systems in Member States. CSR in the fiscal area are reported in Annex I.1.

2.4. CLOSING THE FISCAL SURVEILLANCE CYCLE IN THE EURO AREA: DRAFT BUDGETARY PLANS

In October 2017, Member States submitted their Draft Budgetary Plans (DBPs) for the budgetary year 2018, which were then assessed by the Commission. That monitoring procedure was introduced by the Two-Pack with the aim of enhancing the surveillance and coordination of budgetary and economic policies within the euro area.

All euro area Member States complied with the requirement and submitted their DBP broadly in time. ([23]) In line with the provisions of the Two-Pack Code of Conduct, two Member States (Austria and Germany) submitted no-policy change DBPs due to caretaker governments being in place. The incoming governments are expected to submit full DBPs once they take office. Spain submitted a no-policy-change DBP as well, due to a delay in the budgetary process. The Commission invited Spain to submit an updated DBP as soon as the government is able to present a draft budget law. In the case of the Netherlands, the outgoing government submitted a DBP in due time, which was later complemented by an addendum, reflecting the budgetary plans of the incoming government, which the Commission took into account in its assessment.

The macroeconomic scenarios underlying the DBPs suggest that the economic expansion in the euro area continues, but remains atypical and incomplete. According to the DBPs, aggregate real GDP in the euro area (excluding Greece) is expected to grow by 2.2% in 2017 and 2.0% in 2018. As indicated in Chapter I.1., the Commission autumn forecast 2017 projects similarly strong growth rates for the euro area, at 2.2% in 2017 and 2.1% in 2018. Nevertheless, the recovery appears incomplete and atypical. Specifically, core inflation and wage growth remain unusually low, while the recovery is supported by exceptional tailwinds such as the ECB's accommodative monetary policy. This indicates the appropriateness of a broadly neutral fiscal stance in 2018, which would also be in line with the European Fiscal Board's report on the euro area. ([24]).

The aggregate headline deficit is expected to decrease, benefiting from cyclical improvements. According to the Commission forecast, the euro area deficit will decrease from 1.6% of GDP in 2016 to 1.1% in 2017, while the DBPs imply a marginally higher deficit of 1.2% of GDP 2017. For 2018, the Commission forecast expects the headline deficit to decline to 0.9%, fully in line with the DBPs. Public debt is expected to continue on its slow declining path thanks to the cyclical upswing and continued low interest rates. The aggregate debt-to-GDP ratio is projected to decline from 88% in 2017 to 86% in 2018, based on the DBPs, broadly in line with the Commission forecast.

On the basis of the DBPs themselves, the Commission did not identify any case of "particularly serious non-compliance" with the provisions of the SGP. Nonetheless, some of the DBPs gave rise to concerns about the planned fiscal effort. In the case of Belgium, France, Italy and Portugal, the Commission sent letters asking for further information and highlighted a number of preliminary observations related to the Draft Budgetary Plans. The Member States concerned replied at the end of October, and this information has been taken into account in the Commission's assessment of budgetary developments and risks. Overall, the assessments of the DBPs flagged different degrees of risk and requested, where

([23]) Being under a macroeconomic adjustment programme, Greece was not obliged to submit a plan, as the programme already provides for close fiscal monitoring. The obligation to provide a DBP stems from Article 6 of Regulation 473/2013. However, Article 13 of Regulation 473/2013 foresees that Member States subject to a macroeconomic adjustment programme are not covered by Articles 6 to 12 of that regulation.

([24]) European Fiscal Board (2017).

needed, appropriate action by the Member States in order to ensure compliance with the SGP.

The recitals of the 2017 Council Recommendations for Member States for which the matrix implies a fiscal adjustment of 0.5% of GDP or above, state that the assessment of the 2018 DBPs would take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of a Member State's public finances. In that context, the Council noted the Commission's intention to carry out an overall assessment in light of the cyclical situation of Member States concerned. While compliance continues to be assessed with respect to the matrix-based requirement as indicated in the Recommendations, the Commission can exercise some discretion when assessing the compliance with the SGP of a Member State that is flagged by quantitative indicators as (at risk of) significantly deviating from its required adjustment. The legal basis can be found from the specific terms of Article 6(3) of Council Regulation (EC) No 1466/97, whereby the overall assessment is linked to precise quantitative criteria without being limited to those criteria, which allows for other elements to be taken into account. In the concrete application of those considerations, where appropriate the Commission has used its margin of discretion allowed for in the SGP when assessing the 2018 DBPs. Box.II.3.2 provides additional explanations on discretion, how it was applied and the conclusions reached in the context of the Commission's opinions on the 2018 Draft Budgetary Plans submitted by euro area Member States.

For some Member States (Cyprus, Finland, Italy, and Slovenia), the Commission's "plausibility tool" (see Chapter II.3.) indicated that the estimated output gaps for 2017 based on the commonly-agreed methodology are subject to particular uncertainty. In these cases, in its assessment of the DBP the Commission analysed the output gap in more detail under the "constrained judgement" approach, without this having an impact on the assessment of compliance with the SGP.

In order to facilitate the comparison, the assessment of the plans was summarised in three broad categories: (i) "compliant", (ii) "broadly compliant" and (iii) "at risk of non-compliance". These categories have different implications, depending on whether a Member state is in EDP or not. The opinions of the Commission are presented in Tables I.2.1 and I.2.2.

Six DBPs were found to be "compliant" with the provisions of the SGP. They were submitted by the following Member States under the preventive arm – Germany, Lithuania, Latvia, Luxembourg, Finland and the Netherlands. Of those, three Member States (Germany, the Netherlands and Luxembourg) were above their MTO.

The DBPs of six Member States were found to be "broadly compliant" with the SGP. They were Spain - currently under the corrective arm of the SGP – and Estonia, Ireland, Cyprus, Malta and Slovakia - under the preventive arm. In the case of Spain, under EDP, the Commission autumn forecast 2017 projects that a timely correction of the excessive deficit in 2018, although neither the headline deficit target of 2.2% of GDP nor the required fiscal effort is projected to be met. For the remaining Member States, all under the preventive arm, the Commission forecast projects some deviation from the MTO or the adjustment path towards it, but the shortfall relative to the requirement would not represent a significant deviation. These Member States, where applicable, were also assessed to comply with the debt rule, where applicable. The Commission invited the authorities of the Member States with a broadly compliant DBP to stand ready to take further measures within the national budgetary process to ensure that the 2018 budget will be compliant with the SGP.

Finally, the DBPs of six Member States were found to be "at risk of non-compliance" with the rules of the SGP. In the case of France, which is currently under the corrective arm and could become subject to the preventive arm from 2018 onwards if a timely and sustainable correction of the excessive deficit is achieved, the Commission forecast for 2018 projects a significant deviation from the required adjustment path towards the MTO, and non-compliance with the debt reduction benchmark. Among the Member States currently under the preventive arm, Belgium, Italy, Austria, Portugal and Slovenia were projected to deviate significantly from the required adjustment path towards the MTO. In making use of its degree of discretion, and following an encompassing assessment of sustainability and stabilisation challenges, the Commission concluded that a fiscal adjustment that departs from the requirement can be deemed adequate for Italy and Slovenia, provided that they effectively ensure such a fiscal adjustment in 2018. However, such an adjustment does not appear to be delivered. The Commission invited the authorities of all five Member States in this risk category to take the necessary measures within the national budgetary process to ensure that the 2018 budget will be compliant with the SGP. In the case of Belgium and Italy, also non-compliance with the debt reduction benchmark is projected. These Member States were invited to use windfall gains to accelerate the reduction of the government debt-to-GDP ratio, and the Commission recalled that compliance with the preventive arm requirements is a key relevant factor when assessing compliance with the debt criterion.

Table I.2.1: **Overview of individual Commission opinions on the DBPs - Member States under the preventive arm of the SGP**

Member States	Overall compliance of the DBP with the SGP		Progress with implementing the fiscal-structural part of the 2017 country-specific recommendations
	Overall conclusion of compliance in 2018 based on the Commission 2017 autumn forecast	Compliance with the preventive arm requirements in 2017 and 2018	
BE*	Risk of non-compliance	2017: risk of a significant deviation from the adjustment path towards the MTO based on 2016-2017 together, prima facie non-compliance with the debt reduction benchmark; 2018: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark.	Some progress
DE***	Compliant	2017: MTO overachieved; compliance with the debt reduction benchmark; 2018: MTO overachieved; compliance with the debt reduction benchmark.	Limited progress
EE	Broadly compliant	2017: No deviation from the adjustment path towards the MTO; 2018: Some deviation from the adjustment path towards the MTO.	n.a.
IE	Broadly compliant	2017: risk of a significant deviation from the adjustment path towards the MTO based on 2016-2017 together, compliance with the transitional debt rule; 2018: risk of some deviation from the adjustment path towards the MTO based on 2017 and 2018 together, compliance with the transitional debt rule.	Some progress
IT**	Risk of non-compliance	2017: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark; 2018: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark.	Some progress
CY	Broadly compliant	2017: risk of some deviation from the MTO; compliance with the transitional debt rule; 2018: risk of some deviation from the MTO, compliance with the transitional debt rule.	Some progress
LT	Compliant	2017: MTO overachieved; 2018: MTO overachieved.	Some progress
LV	Compliant	2017: No deviation from the adjustment path towards the MTO; 2018: No deviation from the adjustment path towards the MTO.	Some progress
LU	Compliant	2017: MTO overachieved; 2018: MTO overachieved.	Limited progress
MT	Broadly compliant	2017: MTO overachieved; 2018: risk of some deviation from the MTO.	Some progress
NL****	Compliant	2017: MTO overachieved; 2018: MTO overachieved.	Some progress
AT***	Risk of non-compliance	2017: risk of a significant deviation from the adjustment path towards the MTO based on 2016-2017 together, compliance with the debt reduction benchmark; 2018: risk of a significant deviation from the adjustment path towards the MTO based on 2017-2018 together, compliance with the debt reduction benchmark.	Some progress

(Continued on the next page)

Table (continued)

PT	Risk of non-compliance	2017: risk of a significant deviation from the adjustment path towards the MTO, compliance with the transitional debt rule within the allowed annual deviation; 2018: risk of a significant deviation from the adjustment path towards the MTO, compliance with the transitional debt rule within the allowed annual deviation.	Limited progress
SK	Broadly compliant	2017: risk of some deviation from the adjustment path towards the MTO; 2018: risk of some deviation from the adjustment path towards the MTO;	Some progress
SI	Risk of non-compliance	2017: risk of some deviation from the adjustment path towards the MTO, compliance with the transitional debt rule; 2018: risk of a significant deviation from the adjustment path towards the MTO, compliance with the transitional debt rule.	Some progress
FI*	Compliant	2017: No deviation from the adjustment path towards the MTO, compliance with the debt reduction benchmark; 2018: No deviation from the adjustment path towards the MTO, compliance with the debt reduction benchmark.	Some progress

* The Commission issued a report on 22 May 2017 in accordance with Article 126(3) TFEU for the Member State. The report concluded that, after the assessment of all relevant factors, the debt criterion should be considered as complied with.
** The Commission issued a report on 22 February 2017 in accordance with Article 126(3) TFEU in which it concluded that unless the additional structural measures, worth at least 0.2% of GDP that the government committed to adopt at the latest in April 2017 were credibly enacted by that time in order to reduce the gap to broad compliance with the preventive arm in 2017 (and thus in 2016), the debt criterion should be considered as not complied with at that stage. On 22 May 2017, the Commission concluded that the requested additional consolidation measures for 2017 had been delivered.
*** DBP submitted by a caretaker government on a no-policy-change basis.
**** The DBP submitted by the outgoing government has been updated with an addendum by the new government.
Source: Commission services.

Table I.2.2: **Overview of individual Commission opinions on the DBPs - Member States under the corrective arm of the SGP**

Member States	**Overall compliance of the DBP with the SGP**		**Progress with implementing the fiscal-structural part of the 2017 country-specific recommendations**
	Overall conclusion of compliance in 2018 based on the Commission 2017 autumn forecast	**Compliance with the corrective arm requirements in 2017 and 2018 (or preventive arm if applicable)**	
ES	Broadly compliant	2017: intermediate headline target met, fiscal effort not delivered; 2018 headline deficit projected below 3%, headline target and fiscal effort not delivered.	Some progress
FR*	Risk of non-compliance	2017: headline deficit projected just below 3% of GDP, headline target and fiscal effort not delivered; 2018: risk of significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the transitional debt rule.	Some progress

* France is currently under the corrective arm of the SGP, but could move to the preventive arm as from 2018 if the excessive deficit would be corrected in a timely and sustainable manner.
Source: Commission services.

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Table I.A1.1: **Overview EDP steps – Euro area Member States**

	Treaty Art.	Member State																
		IE	FR	ES	LV	MT	LT	BE	DE	IT	NL	AT	PT	SI	SK	CY	FI	MT
Starting phase																		
Commission adopts EDP-report = start of the procedure	126(3)	18.02.2009	18.02.2009	18.02.2009	18.02.2009	13.05.2009	13.05.2009	07.10.2009	07.10.2009	07.10.2009	07.10.2009	07.10.2009	07.10.2009	07.10.2009	07.10.2009	12.05.2010	12.05.2010	21.05.2013
Economic and Financial Committee adopts opinion	126(4)	27.02.2009	27.02.2009	27.02.2009	27.02.2009	29.05.2009	29.05.2009	27.10.2009	27.10.2009	27.10.2009	27.10.2009	27.10.2009	27.10.2009	27.10.2009	27.10.2009	27.05.2010	27.05.2010	21.06.2013
Commission adopts:																		
opinion on existence of excessive deficit	126(5)																	
recommendation for Council decision on existence of excessive deficit	126(6)	24.03.2009	24.03.2009	24.03.2009	02.07.2009	24.06.2009	24.06.2009	11.11.2009	11.11.2009	11.11.2009	11.11.2009	11.11.2009	11.11.2009	11.11.2009	11.11.2009	15.06.2010	15.06.2010	29.05.2013
recommendation for Council recommendation to end this situation	126(7)																	
Council adopts:																		
decision on existence of excessive deficit	126(6)	27.04.2009	27.04.2009	27.04.2009	07.07.2009	07.07.2009	07.07.2009	02.12.2009	02.12.2009	02.12.2009	02.12.2009	02.12.2009	02.12.2009	02.12.2009	02.12.2009	13.07.2010	13.07.2010	21.06.2013
recommendation to end this situation	126(7)																	
deadline for correction of excessive deficit		***2013***	***2012***	***2012***	***2012***	***2010***	***2011***	***2012***	***2013***	***2012***	***2013***	***2013***	***2013***	***2013***	***2013***	***2012***	***2011***	***2014***
Follow-up																		
Commission adopts communication on action taken					27.01.2010			15.06.2010	15.06.2010	15.06.2010	15.06.2010	15.06.2010	15.06.2010	15.06.2010	15.06.2010	27.01.2011	27.01.2011	15.11.2013
Commission adopts recommendation for NEW Council recommendation to end situation of excessive deficit	126(7)	11.11.2009	11.11.2009	11.11.2009		27.01.2010	27.01.2010				29.05.2013		27.09.2012					
Council adopts recommendation for NEW Council recommendation to end situation of excessive deficit	126(7)	02.12.2009	02.12.2009	02.12.2009		16.02.2010	16.02.2010				21.06.2013		09.10.2012					
new deadline for correction of excessive deficit		***2014***	***2013***	***2013***		***2011***	***2012***				***2014***		***2014***					
Commission adopts communication on action taken		15.06.2010	15.06.2010	15.06.2010		06.01.2011	21.09.2010	11.01.2012			15.11.2013					11.01.2012		
Commission adopts recommendation for Council decision establishing inadequate action	126(8)							29.05.2013										
Council adopts decision establishing inadequate action	126(8)							21.06.2013										
Commission adopts recommendation for a Council decision to give notice	126(9)							29.05.2013										
Council adopts decision to give notice	126(9)							21.06.2013										
Commission adopts recommendation for NEW Council recommendation to end situation of excessive deficit	126(7)	03.12.2010	29.05.2013	06.07.2012									29.05.2013	29.05.2013		07.05.2013		
Council adopts recommendation for NEW Council recommendation to end situation of excessive deficit	126(7)	07.12.2010	21.06.2013	10.07.2012									21.06.2013	21.06.2013		16.05.2013		
new deadline for correction of excessive deficit		***2015***	***2015***	***2014***				***2013***					***2015***	***2015***		***2016***		
Commission adopts communication on action taken		24.08.2011	15.11.2013	14.11.2012				15.11.2013						15.11.2013		06.09.2013*		
Commission adopts recommendation for NEW Council recommendation to end situation of excessive deficit	126(7)		27.02.2015	29.05.2013														
Council adopts recommendation for NEW Council recommendation to end situation of excessive deficit	126(7)		10.03.2015	21.06.2013														
new deadline for correction of excessive deficit			***2017***	***2016***														
Commission adopts communication on action taken			01.07.2015	15.11.2013														
Commission adopts recommendation for Council decision establishing inadequate action	126(8)			07.07.2016									07.07.2016					
Council adopts decision establishing inadequate action	126(8)			12.07.2016									12.07.2016					
Commission adopts recommendation for Council implementing decision imposing a fine for failure to take effective action	126(8)			27.07.2016									27.07.2016					
Commission adopts recommendation for Council decision to give notice	126(9)			27.07.2016									27.07.2016					
Council adopts decision to give notice	126(9)			08.08.2016									08.08.2016					
new deadline for correction of excessive deficit				***2018***									***2016***					
Council adopts implementing decision on imposing a fine for failure to take effective action	126(8)			08.08.2016									08.08.2016					
Commission adopts communication on action taken				16.11.2016									16.11.2016					
Commission adopts proposal for Council opinion on Economic Partnership Programme													16.11.2016					
Abrogation																		
Commission adopts recommendation for Council decision abrogating existence of excessive deficit	126(12)	18.05.2016			29.05.2013	14.11.2012	29.05.2013	02.06.2014	30.05.2012	29.05.2013	02.06.2014	02.06.2014	22.05.2017	18.05.2016	02.06.2014	18.05.2016	29.06.2011	12.05.2015
Council adopts decision abrogating existence of excessive deficit	126(12)	17.06.2016			21.06.2013	04.12.2012	21.06.2013	20.06.2014	22.06.2012	21.06.2013	20.06.2014	20.06.2014	16.06.2017	17.06.2016	20.06.2014	17.06.2016	12.07.2011	19.06.2015

Note: * In line with Regulation (EU) No 472/2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (Two-pack) the assessment of effective action is carried out in the context of the programme surveillance.
Source: Commission services.

Table I.A1.2: **Overview EDP steps - Non-euro area Member States**

Steps in EDP procedure	Treaty Art.	Member State							
		HU	UK	PL	RO	CZ	BG	DK	HR
Starting phase									
Commission adopts EDP-report = start of the procedure	126(3)	12.05.2004	11.06.2008	13.05.2009	13.05.2009	07.10.2009	12.05.2010	12.05.2010	15.11.2013
Economic and Financial Committee adopts opinion	126(4)	24.05.2004	25.06.2008	29.05.2009	29.05.2009	27.10.2009	27.05.2010	27.05.2010	29.11.2013
Commission adopts:									
opinion on existence of excessive deficit	126(5)								
recommendation for Council decision on existence of excessive deficit	126(6)	24.06.2004	02.07.2008	24.06.2009	24.06.2009	11.11.2009	06.07.2010	15.06.2010	10.12.2013
recommendation for Council recommendation to end this situation	126(7)								
Council adopts:									
decision on existence of excessive deficit recommendation to end this situation	126(6) 126(7)	05.07.2004	08.07.2008	07.07.2009	07.07.2009	02.12.2009	13.07.2010	13.07.2010	21.01.2014
deadline for correction of excessive deficit		***2008***	***fin. year 2009/10***	***2012***	***2011***	***2013***	***2011***	***2013***	***2016***
Follow-up									
Commission adopts communication on action taken				03.02.2010		15.06.2010	27.01.2011	27.01.2011	02.06.2014
Commission adopts recommendations for Council decision establishing inadequate action	126(8)	22.12.2004	24.03.2009						
Council adopts decision establishing inadequate action	126(8)	18.01.2005	27.04.2009						
Commission adopts recommendation for NEW Council recommendation to end excessive deficit situation	126(7)	16.02.2005	24.03.2009		08.02.2010				
Council adopts NEW recommendation to end excessive deficit situation	126(7)	08.03.2005	27.04.2009		16.02.2010				
new deadline for correction of excessive deficit		***2008***	***fin. year 2013/14***		***2012***				
Commission adopts communication on action taken		13.07.2005		11.01.2012	21.09.2010				
Commission adopts recommendations for Council decision establishing inadequate action	126(8)	20.10.2005							
Council adopts decision establishing inadequate action	126(8)	08.11.2005							
Commission adopts recommendation for NEW Council recommendation to end excessive deficit situation	126(7)	26.09.2006	11.11.2009						
Council adopts NEW recommendation to end excessive deficit situation	126(7)	10.10.2006	02.12.2009						
new deadline for correction of excessive deficit		***2009***	***fin. year 2014/15***						
Commission adopts communication on action taken		13.06.2007	06.07.2010						
Commission adopts recommendations for Council decision establishing inadequate action	126(8)		12.05.2015						
Council adopts decision establishing inadequate action	126(8)		19.06.2015						
Commission adopts recommendation for NEW Council recommendation to end excessive deficit situation	126(7)	24.06.2009	12.05.2015	29.05.2013					
Council adopts NEW recommendation to end excessive deficit situation	126(7)	07.07.2009	19.06.2015	21.06.2013					
new deadline for correction of excessive deficit		***2011***	***fin. year 2016/17***	***2014***					
Commission adopts communication on action taken		27.01.2010	16.11.2015						
Commission adopts recommendations for Council decision establishing inadequate action	126(8)	11.01.2012		15.11.2013					
Council adopts decision establishing inadequate action	126(8)	24.01.2012		10.12.2013					
Commission adopts recommendation for NEW Council recommendation to end excessive deficit situation	126(7)	06.03.2012		15.11.2013					
Council adopts NEW recommendation to end excessive deficit situation	126(7)	13.03.2012		10.12.2013					
new deadline for correction of excessive deficit		***2012***		***2015***					
Commission adopts communication on action taken		30.05.2012		02.06.2014					
Abrogation									
Commission adopts recommendation for Council decision abrogating existence of excessive deficit	126(12)	29.05.2013	22.11.2017	12.05.2015	29.05.2013	02.06.2014	30.05.2012	02.06.2014	
Council adopts decision abrogating existence of excessive deficit	126(12)	21.06.2013	04.12.2017	19.06.2015	21.06.2013	20.06.2014	22.06.2012	20.06.2014	

Source: Commission services.

Table I.A1.3: **Overview EDP steps - Greece**

Steps in EDP procedure	Treaty Art.	Greece
Starting phase		
Commission adopts EDP-report = start of the procedure	126(3)	18.02.2009
Economic and Financial Committee adopts opinion	126(4)	27.02.2009
Commission adopts:		
opinion on existence of excessive deficit	126(5)	
recommendation for Council decision on existence of excessive deficit	126(6)	24.03.2009
recommendation for Council recommendation to end this situation	126(7)	
Council adopts:		
decision on existence of excessive deficit	126(6)	27.04.2009
recommendation to end this situation	126(7)	
deadline for correction of excessive deficit		***2010***
Follow-up		
Commission adopts recommendations for Council decision establishing inadequate action	126(8)	11.11.2009
Council adopts decision establishing inadequate action	126(8)	02.12.2009
Commission adopts Council recommendation for decision to give notice	126(9)	03.02.2010
Council decision to give notice	126(9)	16.02.2010
new deadline for correction of the excessive deficit		***2012***
Commission adopts communication on action taken		09.03.2010
Council adopts conclusions thereon		16.03.2010
Commission adopts recommendation for NEW Council decision to give notice	126(9)	04.05.2010
Council decision to give notice	126(9)	10.05.2010
new deadline for correction of the excessive deficit		***2014***
Follow-up - 1st review		
Commission adopts communication on action taken		19.08.2010
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	19.08.2010
Council decision amending the Council decision to give notice	126(9)	07.09.2010
Follow-up - 2nd review		
Commission adopts communication on action taken		09.12.2010
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	09.12.2010
Council decision amending the Council decision to give notice	126(9)	20.12.2010
Follow-up - 3rd review		
Commission adopts communication on action taken		24.02.2011
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	24.02.2011
Council decision amending the Council decision to give notice	126(9)	07.03.2011
Follow-up - 4th review		
Commission adopts communication on action taken		01.07.2011
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	05.07.2011
Council decision amending the Council decision to give notice	126(9)	12.07.2011
Follow-up - 5th review		
Commission adopts communication on action taken		26.10.2011
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	26.10.2011
Council decision amending the Council decision to give notice	126(9)	08.11.2011
Follow-up - Second Adjustment Programme		
Commission adopts communication on action taken		09.03.2012
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	09.03.2012
Council decision amending the Council decision to give notice	126(9)	13.03.2012
Follow-up - Second Adjustment Programme		
Commission adopts communication on action taken		30.11.2012
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	30.11.2012
Council decision amending the Council decision to give notice	126(9)	04.12.2012
new deadline for correction of the excessive deficit		***2016***
Follow-up - Third Adjustment Programme		
Council adopts decision to give notice	126(9)	20.08.2015
Abrogation		
Commission adopts recommendation for Council decision abrogating existence of excessive deficit	126(12)	12.07.2017
Council adopts decision abrogating existence of excessive deficit	126(12)	25.09.2017

Source: Commission services.

Table I.A1.4: **Overview SDP steps - Romania**

	Treaty Art.	Romania
Starting phase		
Commission adopts:		
recommendation with a view to giving warning on the existence of a significant observed deviation	121(4)	22.05.2017
recommendation for Council recommendation with a view to correcting the significant observed deviation	121(4)	22.05.2017
Council adopts recommendation with a view to correcting the significant observed deviation	121(4)	16.06.2017
deadline for report on action taken		***15.10.2017***
Follow-up		
Commission adopts:		
recommendation for Council decision on no effective action	121(4)	22.11.2017
recommendation for Council recommendation with a view to correcting the significant observed deviation	121(4)	22.11.2017
Council adopts:		
decision on no effective action	121(4)	05.12.2017
recommendation with a view to correcting the significant observed deviation	121(4)	05.12.2017
new deadline for report on action taken		***15.04.2018***

Source: Commission services.

Table I.A1.5: **Overview of Council Country-Specific Recommendations relating to fiscal policy**

Situation in spring as far as fiscal surveillance is concerned for 2017 and 2018							
	Applicable provisions of the SGP (Spring 2017)	**Other relevant information**	**CSR on fiscal adjustment**	**CSR on fiscal framework**	**CSR on spending reviews**	**CSR on taxation**	**CSR on pensions and health-care**
BE	• Preventive arm • Debt benchmark	• MTO: 0% • Debt > 60%	Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Belgium's public finances. Use windfall gains, such as proceeds from asset sales, to accelerate the reduction of the general government debt ratio.	Agree on an enforceable distribution of fiscal targets among all government levels and ensure independent fiscal monitoring.		Remove distortive tax expenditures.	
BG	Preventive arm	• MTO: -1% • Debt < 60%				Further improve tax collection and tax compliance, including through a comprehensive set of measures beyond 2017. Step up enforcement of measures to reduce the extent of the informal economy, in particular undeclared work.	Increase health insurance coverage, reduce out-of-pocket payments and address shortages of healthcare professionals.
CZ	Preventive arm	• MTO: -1% • Debt < 60%				Ensure the long-term sustainability of public finances, in view of the ageing population. Increase the effectiveness of public spending, in particular by fighting corruption and inefficient practices in public procurement.	
DK	Preventive arm	• MTO: -0.5%					
DE	• Preventive arm • Debt benchmark	• MTO: -0.5% • Debt > 60%	While respecting the medium-term objective, use fiscal and structural policies to support potential growth and domestic demand as well as to achieve a sustained upward trend in investment.			Further improve the efficiency and investment-friendliness of the tax system. Reduce disincentives to work for second earners and facilitate transitions to standard employment. Reduce the high tax wedge for low-wage earners.	
EE	Preventive arm	• MTO: -0.5% • Debt < 60%	Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which entails remaining at its medium-term budgetary objective in 2018.				
IE	• Preventive arm • Transition period debt rule	• MTO: -0.5% • Debt > 60%	Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact. Use any windfall gains arising from the strong economic and financial conditions, including proceeds from asset sales, to accelerate the reduction of the general government debt ratio.			Limit the scope and the number of tax expenditures and broaden the tax base.	
EL			To avoid duplication with measures set out in the Economic Adjustment Programme, there are no additional recommendations for Greece.				
ES	Corrective arm	EDP deadline: 2018	Ensure compliance with the Council Decision of 8 August 2016, including also measures to strengthen the fiscal and public procurement frameworks.	Ensure compliance with the Council Decision of 8 August 2016, including also measures to strengthen the fiscal and public procurement frameworks.	Undertake a comprehensive expenditure review in order to identify possible areas for improving spending efficiency.		
FR	Corrective arm	EDP deadline: 2017 • MTO: -0.4% • Debt > 60%	Ensure compliance with the Council recommendation of 10 March 2015 under the excessive deficit procedure. Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of France's public finances.		Comprehensively review expenditure items with the aim to make efficiency gains that translate into expenditure savings.	Consolidate the measures reducing the cost of labour to maximise their efficiency in a budget-neutral manner and in order to scale up their effects on employment and investment. Broaden the overall tax base and take further action to implement the planned decrease in the statutory corporate-income rate.	
HR	• Preventive arm • Debt benchmark	• MTO:-1.75% • Debt>60%	Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which entails remaining at its medium-term budgetary objective in 2018.	By September 2017, reinforce budgetary planning and the multiannual budgetary framework, including by strengthening the independence and mandate of the Fiscal Policy Commission.		Take the necessary steps for the introduction of the value-based property tax.	Discourage early retirement, accelerate the transition to the higher statutory retirement age and align pension provisions for specific categories with the rules of the general scheme.
IT	• Preventive arm • Debt benchmark	• MTO: 0% • Debt >60%	Pursue a substantial fiscal effort in 2018, in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Italy's public finances. Ensure timely implementation of the privatisation programme and use windfall gains to accelerate the reduction of the general government debt-to-GDP ratio.			Shift the tax burden from the factors of production onto taxes less detrimental to growth in a budget-neutral way by taking decisive action to reduce the number and scope of tax expenditures, reforming the outdated cadastral system and reintroducing the first residence tax for high-income households. Broaden the compulsory use of electronic invoicing and payments.	

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Table (continued)

CY	• Preventive arm • Transition period debt rule	• MTO: 0% • Debt >60%	Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which entails remaining at its medium-term budgetary objective in 2018. Use windfall gains to accelerate the reduction of the general government debt ratio.				Adopt legislation for a hospital reform and advance with the planned implementation of universal health care coverage
LV	• Preventive arm	• MTO: -1% • Debt < 60%	Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which entails achieving its medium-term budgetary objective in 2018, taking into account the allowances linked to the implementation of the systemic pension reform and of the structural reforms for which a temporary deviation is granted.			Reduce taxation for low-income earners by shifting it to other sources that are less detrimental to growth and by improving tax compliance.	Increase the cost-effectiveness of and access to healthcare, including by reducing out-of-pocket payments and long waiting times.
LT	• Preventive arm	• MTO: -1% • Debt < 60%	Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which entails remaining at its medium term budgetary objective in 2018, taking into account the allowances linked to the implementation of the systemic pension reform and of the structural reforms for which a temporary deviation is granted.			Improve tax compliance and broaden the tax base to sources that are less detrimental to growth.	Take steps to address the medium-term fiscal sustainability challenge related to pensions. Improve the performance of the healthcare system by strengthening outpatient care, disease prevention and affordability.
LU	• Preventive arm	• MTO: -0.5% • Debt < 60%					Ensure the long-term sustainability of the pension system, limit early retirement and increase the employment rate of older people.
HU	• Preventive arm • Debt benchmark	• MTO: -1.5% • Debt > 60%	Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Hungary's public finances.			Complete the reduction of the tax wedge for low-income earners and simplify the tax structure, in particular by reducing the most distortive sector-specific taxes.	
MT	Preventive arm	• MTO: 0% • Debt<60%			Expand the scope of the ongoing spending reviews to the broader public sector and introduce performance-based public spending.		
NL	• Preventive arm • Debt benchmark	• MTO:-0.5% • Debt>60% in 2016 and debt <60% as of 2017	While respecting the medium-term objective, use fiscal and structural policies to support potential growth and domestic demand, including investment in research and development.			Take measures to reduce the remaining distortions in the housing market and the debt bias for households, in particular by decreasing mortgage interest tax deductibility. Address the high increase in the self-employed without employees, including by reducing tax distortions favouring self-employment, without compromising entrepreneurship, and by promoting access of the self-employed to affordable social protection.	Based on the broad preparatory process already launched, make the second pillar of the pension system more transparent, inter-generationally fairer and more resilient to shocks.
AT	• Preventive arm • Debt benchmark	• MTO:-0.5% • Debt>60%	Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which entails achieving its medium-term budgetary objective in 2018, taking into account the allowance linked to unusual events.	Rationalise and streamline competencies across the various layers of government and align their financing and spending responsibilities.			Ensure the sustainability of the healthcare system and of the pension system.
PL	• Preventive arm	• MTO:-1% • Debt <60%	Pursue a substantial fiscal effort in 2018, in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Poland's public finances.			Take steps to improve the efficiency of public spending and limit the use of reduced VAT rates.	Ensure the sustainability and adequacy of the pension system by taking measures to increase the effective retirement age and by starting to reform the preferential pension arrangements.
PT	• Preventive arm • Transition period debt rule	• MTO: 0.3% • Debt >60%	Ensure the durability of the correction of the excessive deficit. Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Portugal's public finances. Use windfall gains to accelerate the reduction of the general government debt-to-GDP ratio.	Strengthen expenditure control, cost effectiveness and adequate budgeting, in particular in the health sector with a focus on the reduction of arrears in hospitals and ensure the sustainability of the pension system.	Step up efforts to broaden the expenditure review to cover a significant share of general government spending across several policies.		**Ensure the long-term sustainability of the health sector,** without compromising access to primary healthcare. **Reduce the reliance of the pension system on budgetary transfers**
RO	• Preventive arm	• MTO:-1% • Debt <60%	In 2017, ensure compliance with the Council Recommendation of 16 June 2017 with a view to correcting the significant deviation from the adjustment path toward the medium-term budgetary objective. In 2018, pursue a substantial fiscal effort in line with the requirements of the preventive arm of the Stability and Growth Pact.	Ensure the full application of the fiscal framework.		Strengthen tax compliance and collection. Fight undeclared work, including by ensuring the systematic use of integrated controls.	Adopt legislation equalising the pension age for men and women. In healthcare, shift to outpatient care and curb informal payments.

(Continued on the next page)

Table (continued)

SI	• Preventive arm • Transition period of the debt rule	• MTO: 0.3% • Debt >60%	Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Slovenia's public finances.				Adopt and implement the proposed reform of the healthcare system and adopt the planned reform of long-term care, increasing cost-effectiveness, accessibility and quality care. Fully tap the potential of centralised procurement in the health sector. Adopt the necessary measures to ensure the long-term sustainability and adequacy of the pension system.
SK	• Preventive arm	• MTO:-0.5% • Debt <60%	Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Slovakia's public finances.		Improve the cost-effectiveness of the healthcare system, including by implementing the value-for-money project.		Improve the cost-effectiveness of the healthcare system, including by implementing the value-for-money project
FI	• Preventive arm • Debt benchmark	• MTO:-0.5% • Debt >60%	Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which entails achieving its medium-term budgetary objective in 2018, taking into account the allowances linked to unusual events, the implementation of the structural reforms and investments for which a temporary deviation is granted.				Ensure timely adoption and implementation of the administrative reform to improve cost-effectiveness of social and healthcare services.
SE	• Preventive arm	• MTO:-1% • Debt<60%				Address risks related to household debt, in particular by gradually limiting the tax deductibility of mortgage interest payments or by increasing recurrent property taxes, while constraining lending at excessive debt-to-income levels. Foster investment in housing and improve the efficiency of the housing market, including by introducing more flexibility in setting rental prices and revising the design of the capital gains tax.	
UK	• Preventive arm • Transition period of the debt rule	• MTO:-0.8% • Debt >60%	Pursue a substantial fiscal effort in 2018-19 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of the United Kingdom's public finances.				

Source: Commission services.