Brussels, 20.11.2019
COM(2019) 900 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, AND THE EUROPEAN CENTRAL BANK

on the 2020 Draft Budgetary Plans: Overall Assessment

Executive summary

This Communication summarises the Commission's assessment of the 2020 Draft Budgetary Plans submitted by euro-area Member States. These include no-policy change plans submitted by the governments of Austria, Portugal and Spain, which all held national elections between the end of September and the first half of November, and Belgium, due to the ongoing government formation process. In line with Regulation (EU) No 473/2013, the Commission has assessed all Draft Budgetary Plans as well as the overall budgetary situation and prospects in the euro area as a whole. In line with past practice, the Commission has also assessed the aggregate fiscal stance for the euro area.

The overall assessment of the 2020 Draft Budgetary Plans and the aggregate fiscal stance for the euro area can be summarised as follows:

1. The European and world economies have weakened over the past year. Europe has seen a sharp slowdown in external demand and a contraction in manufacturing, which is starting to spill over to other parts of the economy. While the solid performance of the labour market has helped to sustain private consumption and domestic demand, GDP growth is unlikely to rebound swiftly. The fact that growth is no longer expected to rebound meaningfully in the next two years is a major shift compared to previous forecasts and is based on the assessment that many features of the global slowdown will be persistent.

2. For the first time since 2002, no euro-area Member State is currently in the Excessive Deficit Procedure. Only France is forecast to have a deficit above the 3% reference value in 2019, although that excess is temporary, close to the reference value, and solely due to a one-off impact of a single measure. Of those euro-area Member States forecast to have a deficit in 2020, four are expected to have a deficit above 2% of GDP. Nine euro-area Member States are expected to have a surplus in 2020.

3. The Commission 2019 autumn forecast projects the aggregate euro area headline deficit to rise from 0.5% in 2018 to 0.8% of GDP in 2019 and to 0.9% of GDP in 2020, following the marked slowdown in economic activity, and reversing the declining trend of recent years. The aggregated deficit targets of the Draft Budgetary Plans result in the same path for the headline deficit.

4. The number of euro-area Member States at or above their medium-term budgetary objectives is projected to increase from six to nine between 2019 and 2020, according to the Commission 2019 autumn forecast, with Ireland and Lithuania reaching their medium-term budgetary objectives in 2020 and Greece respecting its newly established medium-term budgetary objective in 2020. By contrast, Belgium, Spain, France and Italy are forecast to remain far below their medium-term budgetary objectives in 2020. Of those euro-area Member States that are not expected to reach their medium-term budgetary objectives in 2020, Estonia and Latvia are expected to make some structural adjustment towards their objectives. By contrast, the Commission currently projects that Italy will move further away from its medium-term budgetary objective in 2020. The same holds for Finland and Slovakia, but to a smaller extent and with both euro-area Member States expected to maintain their debt-to-GDP ratios bellow 60%. The no-policy-change Draft Budgetary Plans submitted by Belgium and Spain also project that their structural balance in 2020 will move further away from their medium-term budgetary objective, while in the case of Portugal the structural balance in 2020 will be closer to its medium-term budgetary objective as a result of the downward revision of its medium-term budgetary objective as of 2020.

5. The Commission projects the euro area aggregate structural deficit to increase by 0.2% of

potential GDP in 2020, thus showing a broadly neutral fiscal stance. That increase in the structural deficit is in particular driven by projected expansionary fiscal policies in euro-area Member States with fiscal space, notably the Netherlands and to a lesser extent Germany (0.6% and 0.4% of potential GDP, respectively), and the projected increase in the structural deficit of Italy (0.3% of potential GDP). The projected change for the euro area as a whole is broadly in line with the change in the (recalculated) structural balance of the Draft Budgetary Plans.

6. The aggregate euro area structural primary balance – i.e. structural balance without interest payments – continues to be in surplus but is projected to decrease by 0.4% of potential GDP in 2020, pointing to a slightly expansionary stance. This indicator of fiscal effort is an important gauge of governments' fiscal policy discretionary decisions since it is not affected by the ongoing savings in interest expenditure.

7. Regarding the composition of the euro area fiscal adjustment, the Commission expects the increase in the structural deficit in 2020 to be driven by a fall in the cyclically adjusted revenue-to-GDP ratio. That expectation is similar to the Draft Budgetary Plans and reflects the impact of reported exponasionary revenue measures. The cyclically adjusted expenditure ratio is also expected to decrease in 2020 in both the Commission 2019 autumn forecast and the Draft Budgetary Plans, alongside a further, albeit small, decline in interest expenditure between 2019 and 2020. It needs to be recalled that Member States with high levels of public debt should use windfalls from lower interest expenditure to accelerate debt reduction.

8. The Commission forecasts the euro area debt-to-GDP ratio to continue its declining path of recent years and to fall from around 86% in 2019 to around 85% in 2020, standing much lower than in the US and Japan (around 114% and 237%, respectively, in 2020). This is mainly thanks to the continued low interest rate environment and planned primary budget surpluses. The Draft Budgetary Plans target a similar reduction in the euro-area debt-to-GDP ratio. Of the nine euro-area Member States that are expected to have debt-to-GDP ratios above 60% in 2020, Italy is expected to show large deviations from the debt reduction benchmark in 2019 and 2020. To a lesser extent, Belgium is also projected not to be compliant with the debt reduction benchmark in either year. Since the correction of their excessive deficits in 2017 and 2018, respectively, France and Spain have been subject to the transitional debt rule, which they are not projected to comply with in 2019 or in 2020. Portugal is expected to comply with the transitional debt rule in 2019 and with the debt reduction benchmark in 2020.

9. Euro-area Member States continue to have very different fiscal positions in terms of debt and sustainability challenges. The short-term sustainability of Italian public finances appears vulnerable to increases in the cost of debt issuance. Some highly indebted euro-area Member States continute to face high medium-term risks, based on factors such as current debt levels, the current primary balance, and projected ageing-related costs.

10. In its latest recommendation on the economic policy for the euro area, which was endorsed by the European Council on 21 and 22 March 2019 and adopted by the Council on 9 April 2019, the Council has recommended that, in the period 2019-2020, euro-area Member States, while pursuing policies in a manner that fully respects the Stability and Growth Pact, support public and private investment and improve the quality and composition of public finances. The Council has also recommended to rebuild fiscal buffers, especially in euro-area Member States with high levels of public debt.

11. This call has been acted upon by euro-area Member States with fiscal space, which have

engaged in a more expansionary fiscal policy also conducive to investment. In particular, Germany and the Netherlands have increased their investment expenditure in 2019 and plan to continue to implement expansionary fiscal policies in 2020. At the same time, according to the Commission 2019 autumn forecast, some of their fiscal space will be left unused. Given the extent of their fiscal space, those euro-area Member States should stand ready to continue using it.

12. By contrast, some of those euro-area Member States with no fiscal space plan either no meaningful fiscal adjustment or a fiscal expansion in 2020. While Greece, Cyprus and Portugal maintain large primary surpluses, show large structural surpluses (or are close to a balanced headline position in the case of Portugal) and rapidly declining debt, they represent the minority of cases. Belgium, Spain, France and Italy show declining or even negative primary balances, with debt only marginally declining or not declining at all, according to the Commission 2019 autumn forecast. Those euro-area Member States do not sufficiently take into account their high structural deficits and historically high levels of debt. Furthermore, they are not taking sufficient advantage of recent declines in interest expenditure in order to reduce their debt ratios. Failure to reduce public debt may increase the risk of heightened market pressure on countries with high public debt in the future, which could have negative spill-over effects on the public debt markets of other euro-area Member States.

13. Several of those euro-area Member States that face the highest sustainability challenges have submitted no-policy change Draft Budgetary Plans in view of recent or forthcoming general elections (Belgium, Spain and to a much smaller extent Portugal). This underscores the importance for those euro-area Member States to include the necessary additional measures in the updated Draft Budgetary Plans, setting the right expectation on how to correct that slippage in the environment of high debt. Those updated Draft Budgetary Plans should be submitted to the Commission and the Eurogroup as soon as possible once the new government has been formed.

14. Fiscal policies continue to be insufficiently differentiated. Euro-area Member States with fiscal space are implementing expansionary fiscal policies and should stand ready to continue the use of their fiscal space. By contrast, the lack of consolidation in countries with high debt levels and sustainability problems remains a concern. Compliance with the Stability and Growth Pact by euro-area Member States not at their medium-term budgetary objectives combined with a bigger expansion by euro-area Member States with fiscal space would result in a better differentiation between euro-area Member States.

15. Against the background of the slowdown in euro area economic growth and an already highly accommodative monetary policy stance, the Eurogroup in October 2019 reiterated its readiness to respond in a coordinated manner if downside risks were to materialise and to avoid pro-cyclical fiscal measures. The Eurogroup recognised the need for Member States with fiscal space to consider boosting high-quality investment. In the context of policy design for 2020, a stronger emphasis should be given to reforms and investment in research and development and on climate. At the same time, the Eurogroup acknowledged that Member States with high public debt levels needed to pursue prudent fiscal policies.

The Commission's assessment of individual euro-area Member States' plans can be summarised as follows:

No Draft Budgetary Plan for 2020 has been found to show particularly serious non-compliance with the requirements of the Stability and Growth Pact. However, in some cases, the Commission has identified risks that the planned fiscal adjustment falls short of what is required by the Stability and

Growth Pact.

As no euro-area Member State is currently under the corrective arm of the Stability and Growth Pact, for all euro-area Member States the compliance assessments for 2020 are made against the requirements of the preventive arm, notably the Council Recommendations of 9 July 2019.

Regarding the Member States in the preventive arm of the Stability and Growth Pact:

- for nine euro-area Member States (**Germany, Ireland, Greece, Cyprus, Lithuania, Luxembourg, Malta, the Netherlands** and **Austria**), the Draft Budgetary Plans are found to be **compliant** with the requirements for 2020 under the Stability and Growth Pact. In the case of Germany and the Netherlands, given their favourable budgetary situation, the Commission invites the authorities to undertake additional expenditures for supporting an upward trend in investment and to focus investment-related economic policy on those areas recommended by the Council in the context of the European Semester.

- for two euro-area Member States (**Latvia and Estonia**), the Draft Budgetary Plans are found to be **broadly compliant** with the requirements for 2020 under the Stability and Growth Pact. The plans might result in some deviation from Latvia's medium-term budgetary objective and from the adjustment path towards it in the case of Estonia. If the structural balance for Latvia is no longer projected to be close to the medium-term budgetary objective in future assessments, the overall assessment of compliance will need to take into account the extent of the deviation from the requirement set by the Council.

- for eight euro-area Member States (**Belgium, Spain, France, Italy, Portugal, Slovenia, Slovakia** and **Finland**), the Draft Budgetary Plans pose a **risk of non-compliance** with the requirements for 2020 under the Stability and Growth Pact. In the case of **Belgium**, **Spain**, **France** and **Italy**, those risks relate both to the insufficient reduction of the high level of public debt and the projected significant deviation from the adjustment path towards their respective medium-term budgetary objective. For **Portugal**, **Slovenia**, **Slovakia** and **Finland**, public debt has either been brought below the 60% of GDP Treaty reference value or is following an appropriate path towards it. Those Member States also achieved a budgetary balance that provides a sizeable margin towards the 3% of GDP Treaty reference value. Nonetheless, the implementation of the Draft Budgetary Plans of these euro-area Member States might result in a significant deviation from the adjustment path towards their respective medium-term budgetary objective.

I. Introduction

EU legislation requires euro-area Member States to submit Draft Budgetary Plans for the following year to the Commission by 15 October with the aim of improving coordination of national fiscal policies in the Economic and Monetary Union.[1]

These plans summarise the draft budgets that governments submit to national parliaments. The Commission provides an Opinion on each plan, thus assessing whether it is compliant with the euro-area Member State's obligations under the Stability and Growth Pact.

The Commission is also required to provide an overall assessment of the budgetary situation and prospects for the euro area as a whole.

In line with the indications of the Two-Pack Code of Conduct,[2] Austria, Portugal and Spain submitted no-policy change Draft Budgetary Plans as a result of the holding of national elections between the end of September and the first half of November. Belgium, where the government formation process is still ongoing, also submitted a no-policy change plan. These governments are expected to submit full Draft Budgetary Plans as soon as possible.

While respecting euro-area Member States' budgetary competence, the Commission's Opinions provide objective policy advice, aimed in particular at national governments and parliaments, in order to facilitate the assessment of the draft budgets' compliance with EU fiscal rules. Economic and budgetary policy is a matter of common concern within the euro area.

In November 2018, the Commission proposed a Recommendation on the economic policy for the euro area, which was endorsed by the European Council on 21 and 22 March 2019 and adopted by the Council on 9 April 2019.[3] That recommendation is an anchor for the Commission's assessment.

The objective of this Communication is twofold. Firstly, it provides an aggregate picture of budgetary policy at the level of the euro area, building on a horizontal assessment of the Draft Budgetary Plans. That exercise mirrors the horizontal assessment of Stability Programmes that takes place in the spring, but with a focus on the forthcoming year rather than on medium-term fiscal plans. Secondly, it provides an overview of the Draft Budgetary Plans at euro area Member-State-level, explaining the Commission's approach in assessing them, specifically vis-à-vis their compliance with the requirements of the Stability and Growth Pact. That assessment takes into account requirements related to the level and dynamics of government debt as well as economic prospects for the euro area.

[1] As set out in Regulation (EU) No 473/2013 on common provisions for monitoring and assessing Draft Budgetary Plans and ensuring the correction of excessive deficits of the Member States in the euro area.

[2] See the Two-Pack Code of Conduct: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2014-11-07_two_pack_coc_amended_en.pdf

[3] Council Recommendation of 9 April 2019, OJ C 136, 12.4.2019, p. 1

II. Main euro area findings

Economic outlook according to euro-area Member States' plans and the Commission forecast

The euro area's growth outlook, while remaining positive, has weakened since the spring assessment round, and it is unlikely to rebound swiftly. According to the Commission 2019 autumn forecast, aggregate real GDP growth in the euro area is expected to slow from 1.9% in 2018 to 1.1% in 2019, before rising only marginally to 1.2% in 2020. This is broadly similar to the macroeconomic assumptions contained in the Draft Budgetary Plans (Table 1). The forecast for 2019 has been revised lower by 0.1 percentage points compared to the Commission 2019 spring forecast and by 0.2 percentage points compared to the Stability Programmes. The forecast for 2020 has been revised lower by 0.3 percentage points compared to spring, according to both forecasts. The macroeconomic scenarios contained in the Draft Budgetary Plans are generally very similar to the Commission’s forecasts for individual euro-area Member States, partly reflecting the fact that all euro-area Member States are required to base the draft budgets on independently endorsed or produced macroeconomic forecasts. The Commission projects notably lower growth than the Draft Budgetary Plan for Germany and Greece, and significantly higher growth for Ireland, with the latter basing its Draft Budgetary Plans on the scenario of a disorderly Brexit (Annex IV Table 1).

In line with the expected slowdown in economic growth, the aggregate euro-area positive output gap is forecast to have narrowed in 2019 and to narrow further in 2020. The aggregate positive output gap is expected to decrease in 2019 and 2020, both on the basis of the Commission 2019 autumn forecast and the (recalculated) Draft Budgetary Plans.[4] In particular, Belgium and Germany are projected to have negative output gaps in 2020, in addition to Greece and Italy.

Overall, real GDP growth is set to remain subdued in 2020, while uncertainty and risks to the outlook remain elevated. While the solid performance of the labour market has helped to sustain private consumption and domestic demand, GDP growth is unlikely to rebound swiftly. The contribution of domestic demand to growth is expected to recede, driven mainly by moderating investment growth. At the same time, the euro area economy is facing an elevated level of uncertainty. The downside risks surrounding the central scenario remain predominant and characterised by a high degree of interconnectedness, which could magnify their impact on the economy if they were to materialise. A futher escalation of trade and geopolitical tensions and a sharper-than-expected slowdown in China could dampen global economic activity, with negative repercussions for the euro area. Furthermore, spill-overs from the weakness of the manufacturing sector could further dampen growth, while a disorderly Brexit could have a disruptive impact on economic activity in the EU.

[4] The output gap included in the Draft Budgetary Plans is recalculated by the Commission on the basis of the information provided in the plans and using the commonly agreed methodology.

Table 1: Overview of economic and budgetary aggregates (EA-19) for 2019-2020

	2018	2019			2020		
	Commission 2019 autumn forecast (November)	2019 Stability Programmes (April)	Draft Budgetary Plans (October)	Commission 2019 autumn forecast (November)	2019 Stability Programmes (April)	Draft Budgetary Plans (October)	Commission 2019 autumn forecast (November)
Real GDP growth (% change)	1.9	1.4	1.2	1.1	1.6	1.4	1.2
HICP inflation (% change)	1.8	1.4	1.4	1.2	1.6	1.4	1.2
Output gap (% of potential GDP)	0.7	0.4	0.5	0.5	0.5	0.5	0.4
Headline balance (% GDP)	-0.5	-0.9	-0.7	-0.8	-0.5	-0.8	-0.9
Primary balance (% GDP)	1.3	0.9	0.9	0.9	1.1	0.7	0.6
Structural balance (% of potential GDP)	-0.8	-0.9	-0.8	-0.9	-0.8	-1.1	-1.1
Change in structural balance (pps. of potential GDP)	0.2	-0.2	0.0	-0.1	0.1	-0.3	-0.2
Public debt (% GDP)	87.9	85.6	86.4	86.4	82.4	85.1	85.1
Cyclically-adjusted expenditure ratio (% potential GDP)	47.4	47.1	47.4	47.4	46.8	47.3	47.3
Cyclically-adjusted revenue ratio (% potential GDP)	46.5	46.0	46.3	46.3	46.0	46.1	46.2

Source: 2019 Stability Programmes, 2020 Draft Budgetary Plans, European Commission 2019 autumn forecast.

Fiscal outlook according to the plans and the Commission 2019 autumn forecast

The aggregate euro-area headline deficit is expected to reverse its recent declining trend in 2019 and to increase further in 2020. The euro-area headline deficit is expected to rise to **0.8% of GDP in 2019**, according to the Commission 2019 autumn forecast (Table 1). That level is lower than the deficit projected in the Commission 2019 spring forecast and the 2019 Stability Programmes, but larger than in the Draft Budgetary Plans. Country developments are mixed, with Belgium, Slovakia and Finland expected to have larger deficits (compared to the Commission 2019 spring forecast), while Germany, Ireland, Greece, Cyprus, Luxembourg, Malta, the Netherlands and Austria are expected to have larger surpluses (Annex IV Table 2). The aggregate euro-area deficit is projected to increase to 0.9% of GDP in 2020, according to the Commission 2019 autumn forecast. The mildly higher deficit compared to the Draft Budgetary Plans reflects notably somewhat lower growth projected in the Commission 2019 autumn forecast (Annex IV Graph 2). That level corresponds to the Commission 2019 spring forecast but represents an increase compared to the 2019 Stability Programmes (+0.4% of GDP), driven by higher expected deficits in Belgium, Spain, France, Italy, Latvia, Slovakia and Finland, and lower expected surpluses in Germany, Ireland, Greece, Lithuania, the Netherlands, Portugal and Slovenia. It would represent the second increase in the aggregate euro-area headline deficit since 2009.

For the first time in many years, no euro-area Member State is currently in the Excessive Deficit procedure. Only France is forecast to have a deficit above the 3%

reference value of the Treaty in 2019, although that excess is temporary, close to the reference value, and solely due to a one-off impact of a single measure. Spain corrected its excessive deficit in 2018, with the headline deficit having fallen to 2.5% and expected to decrease further, according to the Commission 2019 autumn forecast (Annex IV Table 2). Belgium, Spain, France and Italy are expected to have deficits above 2% of GDP. Nine euro-area Member States are expected to have a surplus in 2019 and 2020, with Lithuania and Portugal maintaining a balanced position. Overall, there are limited differences between euro-area Member States' projected fiscal balances in 2020 as per the Draft Budgetary Plans and the Commission 2019 autumn forecast (Annex IV Graphs 1 and 2), although the Commission is particularly more pessimistic for Slovakia, Spain, Slovenia and Malta.

The euro-area aggregate primary balance, obtained by removing interest expenditures from the headline balance, is expected to diminish while remaining in surplus in 2019 and 2020. According to both the Commission 2019 autumn forecast and the Draft Budgetary Plans, the euro-area aggregate primary balance is forecast to decrease from 1% of GDP in 2018 to 0.9% of GDP in 2019, same as projected in the 2019 Stability Programmes (Table 1). Only Estonia, Spain, France and Finland are expected to have negative primary balances in 2019 (Annex IV Table 3). The aggregate euro-area primary balance is expected to fall to 0.6% of GDP in 2020, according to the Commission 2019 autumn forecast and broadly in line with the Draft Budgetary Plans. Belgium, Germany, Greece, Cyprus, Luxembourg and the Netherlands are expected to have particularly large reductions in their primary balances in 2020. Estonia, Spain, France and Finland are expected to still have negative primary balances in 2020, as is Belgium. In both years, differences between euro-area Member States' and the Commissions' projections are overall limited, although the Commission expects the primary balances of Spain, Cyprus, Slovenia and Slovakia to be more than 0.4 pps. of GDP lower in 2020 compared to the Draft Budgetary Plans.

The change in the structural primary balance points to a slightly expansionary fiscal stance for the euro area in both 2019 and 2020, according to the Draft Budgetary Plans and Commission forecast.[5] In 2019, the structural primary balance is expected to deteriorate by 0.3 pps. of potential GDP, according to the Commission 2019 autumn forecast. This is in line with the Draft Budgetary Plans. The structural primary balance is forecast to deteriorate by an additional 0.4 pps. of potential GDP in 2020, according to the Commission 2019 autumn forecast and in line with the Draft Budgetary Plans (Annex IV Table 5).[6] The Draft Budgetary Plans represent a sizable revision to the 2019 Stability Programmes, which envisaged the aggregate euro-area structural primary balance to stabilize in 2020. The Draft Budgetary Plans expect the structural primary balances of Belgium, Spain, Italy, Cyprus, Luxembourg, the Netherlands, and Finland to be lower by more than 0.5 pps of potential GDP compared to the 2019 Stability Programmes.

[5] The structural primary balance is the structural balance net of interest expenditure. The annual change in this indicator is the most simple and standard measure of the fiscal stance.

[6] The fiscal stance could also be expressed in terms of the two indicators used in fiscal surveillance. If measured by the change in the structural balance, which is affected by windfalls stemming from lower interest expenditure, the Commission 2019 autumn forecast projects a broadly neutral fiscal stance of around 0.2 pps. of potential GDP for the euro area in 2020. The slightly expansionary fiscal stance estimated by the change in structural primary balance is confirmed by the fiscal effort measured according to the expenditure benchmark methodology, which is not distorted by lower interest expenditure (and the revenue windalls) and which predicts slight expansion of around 0.5 pps. of potential GDP in 2020, based on the Commission 2019 autumn forecast.

The number of euro-area Member States at or above their medium-term budgetary objectives is expected to increase between 2019 and 2020. According to the Commission 2019 autumn forecast, seven euro-area Member States are expected to be above their medium-term budgetary objectives in 2019 (Germany, Greece, Cyprus, Luxembourg, Malta, the Netherlands and Austria) (Annex IV Table 6). All of those are projected to remain at or above their medium-term budgetary objectives in 2020, although Germany, Cyprus, Luxembourg and the Netherlands plan to use some of their fiscal space (Annex IV Graphs 7a and 7b). In addition, Ireland and Lithuania are expected to reach their medium-term budgetary objectives in 2020. However, a number of euro-area Member States are expected to remain far below their medium-term budgetary objectives in 2020, according the Commission 2019 autumn forecast, i.e. Spain (-3.2 pps.), Italy (-3 pps.), Belgium (-2.4 pps.) and France (-2.2 pps.) (Annex IV Table 6 and Graphs 7a/7b). Of those euro-area Member States that are not yet at their medium-term budgetary objectives, the Commission forecasts that Belgium, Spain, Italy, Finland and Slovakia will move even further away from them in 2020.[7] By contrast, Estonia and Latvia are expected to make some adjustment towards their medium-term budgetary objectives in 2020, while France, Portugal and Slovenia are expected to remain in an unchanged position.

The euro area public debt-to-GDP ratio is expected to continue its declining path in 2019 and 2020. The ratio has been on a declining path since 2014, when it peaked at 94.5%. According to the Commission 2019 autumn forecast, it is expected to fall to around 85% in 2020. That ratio stands much lower than in the US and Japan (around 114% and 237%, respectively, in 2020). The ongoing reduction in the euro-area aggregate debt-to-GDP ratio is mainly driven by a positive 'snowball effect', reflecting the projection that nominal interest rates will continue to be lower than nominal GDP growth. Projected primary surpluses in 2019 and 2020 are also expected to have a debt-reducing impact (Annex IV Graph 8). In contrast, stock-flow adjustments[8] are expected to put a mild upward pressure on the aggregate debt-to-GDP ratio in 2020. The Draft Budgetary Plans target a similar reduction in the euro-area debt-to-GDP ratio. In both years, the planned debt-to-GDP ratios are higher than those contained in the 2019 Stability Programmes, with large upward revisions in 2019 and 2020 for Belgium, Greece, Italy and Cyprus (Annex IV Table 7).[9]

All euro-area Member States apart from Belgium, France, Italy and Finland are expected to reduce their debt-to-GDP ratios between 2019 and 2020.[10] All euro-area Member States but Italy are expected to benefit from a debt-reducing ‘snowball effect’ in 2020 while positive primary balances are also expected to have a downward impact, with the exceptions of Belgium, Estonia, France and Finland (Annex IV Graph 9). Differences between the forecasts contained in the Commission 2019 autumn forecast and the Draft Budgetary Plans are not negligible but largely offset each other on aggregate with the Commission projecting somewhat higher ratios for Greece, Spain, Italy and Slovenia, and somewhat lower ratios for Belgium, Germany, Ireland, Cyprus and Latvia (Annex IV Graph 8).

[7] It should be noted that Finland and Slovakia are expected to maintain their debt-to-GDP ratios below 60%.

[8] The stock-flow adjustment ensures consistency between the net borrowing (flow) and the variation in the stock of gross debt. It includes the accumulation of financial assets, changes in the value of debt denominated in foreign currency, and remaining statistical adjustments.

[9] In some cases, the higher debt-to-GDP ratios reflect the revision of past data.

[10] It has to be recalled that Finland is expected to keep the debt-to-GDP ratio bellow 60%.

According to the Commission forecast, nine euro-area Member States are expected to have debt-to-GDP ratios above 60% in 2020. This is the highest number of euro-area Member States respecting the 60% Treaty threshold since 2008. Greece and Italy are expected to have ratios above 130%. Portugal is expected to continue reducing its debt-to-GDP ratio to below 120%, while Belgium is projected to stabilise its debt ratio at just below 100%. France and Spain are expected to keep their ratios below but close to 100% in 2020. Some highly-indebted euro-area Member States are expected to make negligible structural efforts (France and Portugal) or to undertake an expansion (Belgium, Greece, Spain, Italy and Cyprus) in 2020, according to the Commission 2019 autumn forecast. That being said, however, Greece[11], Cyprus and Portugal maintain large primary surpluses (Annex IV Table 3), they show large structural surpluses (or are close to a balanced headline position in the case of Portugal) and their debt is correspondingly rapidly declining. Conversely, Belgium, Spain, France and Italy show declining or even negative primary balances, indicating that they have scope to reduce their debt burdens more rapidly, according to the Commission 2019 autumn forecast (Annex IV, Graph 10). Italy is expected to deviate from the debt reduction benchmark in 2019 and 2020, with its debt-to-GDP ratio projected to continue rising to almost 137%. To a lesser extent, Belgium is also projected to not be compliant with the debt reduction benchmark in either year. Since the abrogation of the Excessive Deficit Procedure in 2017 and 2018, respectively, France and Spain have been subject to the transitional debt rule which they are not projected to meet in either year. On the contrary, Greece and Portugal are expected to comply with the transitional debt rule in 2019 and with the debt reduction benchmark in 2020. Cyprus is also projected to meet the debt reduction benchmark in 2019 and 2020 by a wide margin.

Composition of fiscal adjustment

The projected increase in the euro-area aggregate structural deficit in 2020 is mainly driven by a fall in the cyclically adjusted revenue ratio. While total government revenues are expected to grow by 2.4% in 2020 (according the Commission 2019 autumn forecast), the cyclically adjusted revenue ratio is expected to remain roughly unchanged at 46.3% of potential GDP in 2019 and 46.2% of potential GDP in 2020 (Table 1 and Annex IV Table 8). While all types of revenues are expected to grow at a lower rate than nominal GDP, it is direct taxes and other revenues that are the largest contributors to the projected small decline in the cyclically adjusted revenue ratio (Annex IV Graph 15). It also reflects the impact of reported revenue measures, which are expected to increase the headline deficit by 0.1% of GDP in 2020 (Annex IV Graph 14).[12] The Draft Budgetary Plans target a similar decline in the revenue ratio in 2020, while revenues are expected to grow at a slightly higher rate of 2.6%.

The cyclically adjusted expenditure ratio is projected to fall between 2019 and 2020, according to the Commission 2019 autumn forecast, corresponding to total expenditure growth of 2.7%. The cyclically-adjusted expenditure ratio is expected to remain broadly

[11] Greece committed to preserve a sound fiscal position which ensures compliance with the primary surplus target set by Decision (EU) 2017/1226 on 30 June 2017 of 3.5% of GDP for 2018 and over the medium term. Compliance with this target is monitored by the Commission on a quarterly basis in the enhanced surveillance reports.

[12] The aggregate revenue-to-GDP elasticity of both the plans and the Commission 2019 autumn forecast is around 0.9, compared to a standard revenue-to-output-gap elasticity of 1.

unchanged between 2018 and 2020 and is forecast to stand at 47.3% of potential GDP in 2020 (Table 1). The Draft Budgetary Plans target a similar decrease in the cyclically adjusted expenditure ratio between 2019 and 2020, although total expenditure is expected to grow in line with the Commission forecast. The cyclically adjusted primary expenditure ratio is also expected to remain broadly unchanged (Annex IV Table 8) in both the Commission 2019 autumn forecast and the Draft Budgetary Plans, although that stability hides some variation between euro-area Member States (Annex IV Graph 12). Indeed, a number of them are expected to have quite large increases in their cyclically adjusted primary expenditure ratios in 2020 (Greece, Italy, Cyprus, Luxembourg and the Netherlands), while others are expected to have large declines (Estonia, France nad Latvia). Interest expenditure is expected to continue its recent trend decline as a percentage of GDP, with an expected decline of 0.1 pps. between 2019 and 2020, according to the Commission 2019 autumn forecast. On average, the implicit interest rate underlying the Commission's forecast is expected to fall to 1.8% in 2020, which is marginally higher than the assumption of the Draft Budgetary Plans.

Assessment of the fiscal policy orientation in the euro area

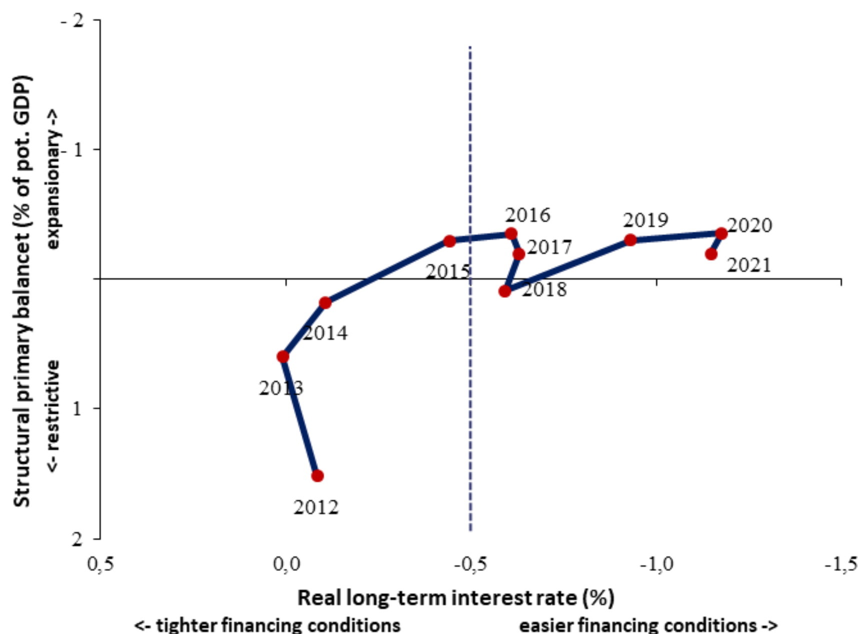
The fiscal stance should take due consideration of the monetary stance, which is expected to remain supportive. In September 2019, the European Central Bank announced a new package of accommodative policy measures, including a further cut in the Deposit Facility Rate to -0.50% and an open-ended restart of net asset purchases. In combination with the the European Central Bank Governing Council’s forward guidance[13], monetary policy is therefore expected to stay very accommodative in 2020 and beyond. At the same time, however, having carried the burden of the reflationary effort over the past years, monetary policy is facing increasing negative side effects, e.g. asset price misalignments and concerns about the financial health of some parts of the financial sector. On the fiscal side, as discussed above, the Commission 2019 autumn forecast projects a slightly expansionary fiscal stance in 2020. Graph 1 shows the joint orientation of monetary and fiscal policies by comparing the evolution of financing conditions (the real long-term interest rate) with a measure of the fiscal effort (based on the change in the structural primary balance).

Euro-area Member States have very different fiscal positions in terms of debt and sustainability challenges. An updated fiscal sustainability risk assessment has been undertaken on the basis of the Commission 2019 autumn forecast (Annex IV Table 10). That assessment takes into account, inter alia, current debt levels, the current primary balance and expected costs of ageing. While no euro-area Member State faces risks to fiscal sustainability in the short-term, the short-term sustainability of Italian public finances continues to appear vulnerable to increases in the cost of debt issuance. Short-term fiscal vulnerabilities are also identified for France and Spain. Those risks are in particular captured by a value of the S0 fiscal sub-index, which is above its critical threshold. According to the S1 indicator, Belgium, Spain, France and Italy appear to continue facing high medium-term risks. All of those euro-area Member States are also considered to face high risks when additionnal results from the Debt Sustainability Analysis are taken into account. Portugal is also considered to face high risks based on this analysis. The medium-term risk assessment has deteriorated for Finland

[13] The Governing Council currently expects key policy rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within the projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics. Furthermore, net asset purchases are expected to end shortly before the first policy rate hike.

pointing to a lower fiscal scope than last year. While the fiscal scope of Cyprus seems to have increased since last year, it still faces significant risks related to contingent liabilities.

Graph 1: Real long-term interest rate (%) and change in structural primary balance (pps. of potential GDP) for the euro area



The euro area fiscal stance is expected to be slightly expansionary in 2020 (Graph 1). In 2020, the structural primary budget balance is expected to decline by around 0.4 pps. of potential GDP, which is considered as a slightly expansionary fiscal stance. This is confirmed by the fiscal effort based on the expenditure benchmark methodology, which points to a more expansionary fiscal stance of around 0.5 pps. of potential GDP (Annex IV Graph 6c).[14]

Some euro-area Member States with ample fiscal space and large current account surpluses plan to use some of their fiscal space. In line with past Council recommendations, the Netherlands and to a lesser extent Germany plan to implement expansionary fiscal policies in 2020 (Annex IV Graph 11). At the same time, some of their fiscal space will be left unusued, on the basis of the Commission 2019 autumn forecast. Given the extent of their fiscal space, those euro-area Member States should stand ready to continue using it.

On the other hand, some of those euro-area Member States that face the highest sustainability challenges plan either no meaningful fiscal adjustment (France) or a fiscal expansion (Belgium, Spain and Italy)[15] in 2020 (Annex IV Graph 10). The planned fiscal

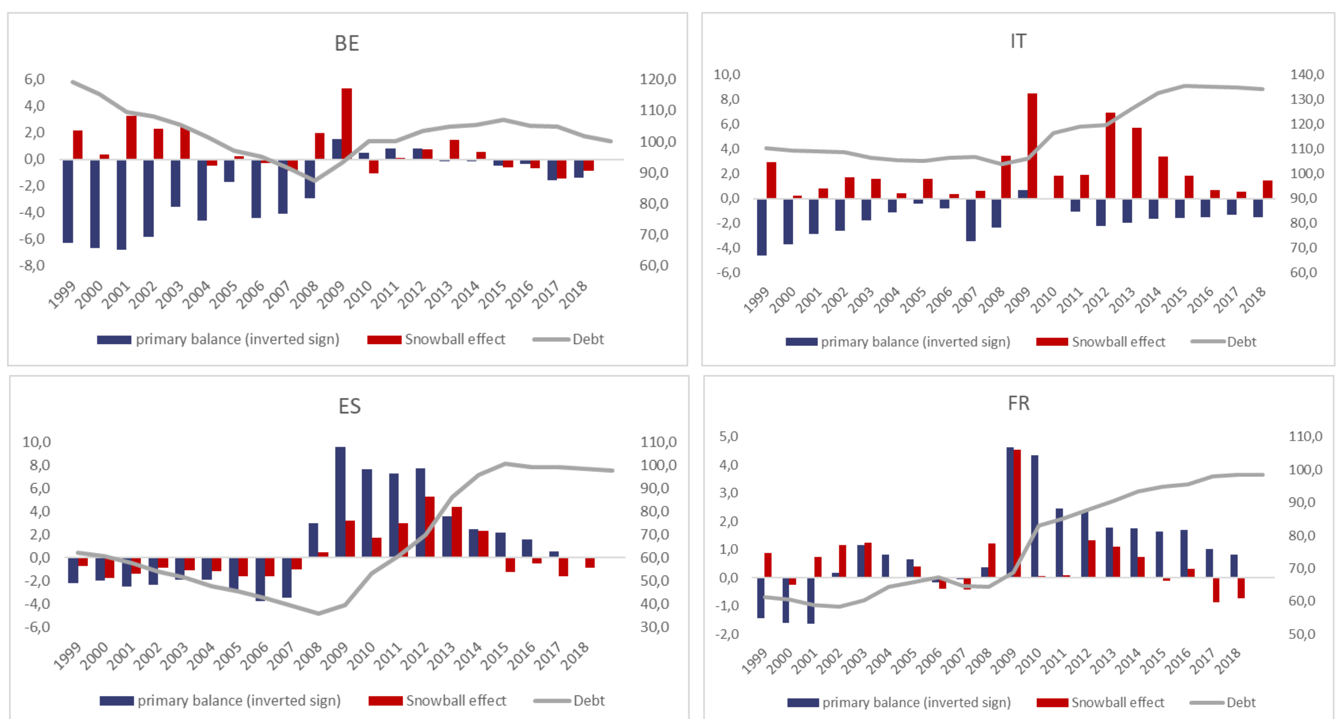
[14] By contrast, the change in the structural balance (the other indicator used in fiscal surveillance alongside the expenditiure benchmark) only points to a broadly neutral fiscal stance of around 0.2% pps. of potential GDP. This lower estimate is due to the intrest windfalls, wich mechanically improve the change in the structural balance. In this sense, the fiscal effort based on the structural primary balance is an important gauge of governments' fiscal policy discretionary decisions since, unlike the structural balance, it is not affected by the ongoing savings in interest expenditure.

[15] It should be recalled that fiscal plans of Belgium and Spain are based on a no-policy-change DBP.

policies of Belgium, Spain, France and Italy take insufficient account of their structural deficits and the very accommodative monetary policy stance. According to the Commission 2019 autumn forecast, those euro-area Member States have declining or even negative primary balances, with debt only marginally declining or not declining at all. Although aquiring some savings on account of exceptionally low level of the interest rate growth differential (Annex IV Graph 16), those euro-area Member States are not planning to use those savings for reduction of historically high levels of debt. All this is in contrast with the recommendation to rebuild fiscal buffers. Particularly noticeable is the slight erosion of primary surplus in Italy, against a level of debt that stands out against other euro-area countries and vis-à-vis the declining 'snowball effect', as well as the persistently negative primary balance of France (Graph 2). The pursuit of prudent fiscal policies by euro-area Member States with high levels of public debt would put their debt ratio on a downward path, reduce vulnerability to shocks, and allow for the functioning of automatic stabilisers in the event of an economic downturn. Failure to reduce public debt may increase the risk of heightened market pressure on countries with high public debt in the future, which could have negative spill-over effects on the public debt markets of other euro-area Member States.

Overall, fiscal policies continue to be insufficiently differentiated, especially in highly indebted euro-area Member States. The full implementation of the Draft Budgetary Plans would result in a broadly neutral to mildly expasionary fiscal stance for the euro area as a whole. Euro-area Member States with fiscal space are using it. They should stand ready to continue using it, given the extent of their fiscal space. The lack of consolidation in countries with sustainability challenges, despite the requirements of the Stability and Growth Pact, remains a concern. Compliance with the Stability and Growth Pact by euro-area Member States not at their medium-term budgetary objectives combined with bigger expansions by euro-area Member States with fiscal space (see Annex IV Graph 6a and 6b) would help balance the overall policy mix in the euro area, while better differentiating between euro-area Member States vis-à-vis their available fiscal space.

Graph 2: Drivers of the change in gross debt between 1999 and 2018 (% of GDP), contribution of the primary balance and snowball effect for selected euro-area Member States



III. Overview of the Draft Budgetary Plans

The Commission Opinions on the Draft Budgetary Plans focus on compliance with the Stability and Growth Pact and the recommendations issued on that basis. Since all Member States are currently subject to the preventive arm of the Stability and Growth Pact, the Commission Opinions assess adherence to, or the progress towards, the country-specific medium-term budgetary objectives, as well as compliance with the debt rule, in order to verify whether the plans are in line with the Stability and Growth Pact and the fiscal country-specific recommendations contained in the Council Recommendations of 9 July 2019.

All euro-area Member States submitted their Draft Budgetary Plans in due time, in line with Article 6 of Regulation (EU) No 473/2013, with the exception of Italy which submitted it a day after the required date (i.e. 16 October). In accordance with the provisions of the Two-Pack Code of Conduct, four countries submitted a no-policy-change Draft Budgetary Plan. Austria, Portugal and Spain submitted no-policy-change Draft Budgetary Plans due to the holding of national elections between the end of September and the first half of November 2019. Belgium also submitted a no-policy-change Draft Budgetary Plan due to the ongoing government formation process. As soon as the governments take office and as a rule at least one month before the draft budget law is planned to be adopted by the national parliament, the authorities are invited to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan.

No Draft Budgetary Plan was found in particularly serious non-compliance with the Stability and Growth Pact as referred to in Article 7(2) of Regulation (EU) No 473/2013. Nevertheless, some Draft Budgetary Plans gave rise to concerns. In particular, the Commission sent letters to Finland on 14 October 2019 and to Belgium, France, Italy, Spain and Portugal on 22 October 2019, asking for further information, highlighting a number of preliminary observations related to their Draft Budgetary Plans, and, in the case of Begium, Spain and Portugal, highlighting the importance of the submission of updated Draft Budgetary Plans. Finland replied on 16 October and France and Italy on 23 October 2019. The Commission took the information contained in the replies into account in its assessment of budgetary developments and risks.

Table 2 summarises the assessments of individual Member States' Draft Budgetary Plans in the Commission Opinions adopted on 20 November 2019, together with the assessment of progress with fiscal-structural reforms. These assessments are based on the Commission 2019 autumn forecast. In order to facilitate comparison, the assessment of the plans is summarised in three broad categories. As no Member State is currently subject to an Excessive Deficit Procedure, for all Member States the compliance assessments for 2020 are made against the requirements of the preventive arm, notably the Council Recommendations of 9 July 2019:

- **Compliant:** According to the Commission's 2019 autumn forecast, there is no need to adapt the budgetary plans within the national budgetary procedure to ensure that the 2020 budget will be compliant with the Stability and Growth Pact rules.

- **Broadly compliant:** According to the Commission's forecast for 2020, the Draft Budgetary Plan is expected to ensure broad compliance with the Stability and Growth Pact rules.

  The Commission's forecast for 2020 projects those Member States to be close to their medium-term objective or to have some deviation from the required adjustment path towards it. When a Member State is close to the medium-term objective but the

expenditure benchmark currently points to a risk of a significant deviation from the requirements, this will need to be taken into account in future assessments if the structural balance is no longer projected to be close to the medium-term objective, taking into account any allowances where relevant. These Member States are assessed to comply with the debt criterion.

- **Risk of non-compliance:** According to the Commission's forecast for 2020, the Draft Budgetary Plan is not expected to ensure compliance with the Stability and Growth Pact rules.

  The Commission's forecast for 2020 projects a significant deviation from the medium-term objective or the required adjustment path towards it, and/or non-compliance with the debt reduction benchmark, where applicable.

No Member State has requested additional flexibility for 2020 for investment and structural reforms under the "Commonly agreed position on flexibility within the Stability and Growth Pact" endorsed by the Council on 12 February 2016.

In its Draft Budgetary Plan for 2020, Italy indicated that the budgetary impact of the preventive plan to limit hydrogeological risks will be significant in 2020 and should be considered as an unusual event outside the control of the government, for the purposes of Article 5.1 and Article 6.3 of Regulation (EC) No 1466/97. In relation to that, Italy requested a temporary deviation from the adjustment path towards the medium-term budgetary objective amounting to 0.2 % of GDP in 2020. The Commission will make a final assessment, including on the eligible amounts, in spring 2021, on the basis of observed data as provided by the authorities.

The Commission, in consultation with the Member States, has continued to use the plausibility screening tool to signal cases where the output gap estimates according to the agreed methodology could be interpreted as being subject to a high degree of uncertainty. The Commission takes the same approach as in previous surveillance rounds. Based on the screening tool, the output gaps for 2019 may be subject to a high degree of uncertainty in the case of five Member States (Cyprus, Lithuania, Luxembourg, Slovenia and Spain). As Cyprus and Luxembourg are expected to remain above their medium-term objective, the uncertainty regarding their output gap estimate has been considered as not having a potential impact on the assessment of compliance with the preventive arm requirements and therefore no further assessment has been carried out. In the case of Lithuania, if in spring 2020 the high degree of uncertainty surrounding the output gap estimate for 2019 remains, an in-depth analysis will be carried out in the Commission’s assessment for 2019. For Slovenia and Spain, an assessment of the uncertainty surrounding the output gap estimates was already carried out in spring 2019, which indicated that the output gap estimates based on the common methodology were subject to a high degree of uncertainty. On that basis, in the case of Spain, a lower requirement of a maximum growth rate of net primary government expenditure of 0.9%, corresponding to an annual structural adjustment of 0.65% of GDP in 2020 was set in the context of the Council Recommendations of 9 July 2019. In the case of Slovenia, there was no impact on the 2020 requirement, which was to achieve its medium-term budgetary objective. The 2019 autumn assessments confirm the high degree of uncertainty surrounding the output gap estimates for Slovenia and Spain. For Slovenia, the output gap as suggested by the plausibility tool would imply a lower structural deficit in 2020, bringing it closer to its medium-term budgetary objective. This would point to broad compliance. However, given the high volatility of the relevant estimates, this will only be

taken into account, if confirmed, in the ex post assessment of compliance with the requirements of the preventive arm in spring 2021.

Finally, the Commission has preliminarily assessed the degree of progress with the implementation of the fiscal-structural reforms outlined in the Council Recommendations of 9 July 2019. The assessment of the Draft Budgetary Plans is summarised in the following five broad categories: no progress, limited progress, some progress, substantial progress and fully addressed. Given that only a few months have passed since the adoption of the Council Recommendations in July 2019, most of the euro-area Member States have made '*limited progress*' with regard to the structural part of the fiscal recommendations addressed to them. By contrast, Germany, Italy, Latvia, Lithuania and the Netherlands have made '*some progress*' in implementing the fiscal-structural part of the 2019 country-specific recommendations. In particular, Germany and the Netherlands adopted measures mainly related to investment, while Italy, Latvia and Lithuania took measures mostly related to taxation. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2020 Country Reports and assessed in the context of the 2020 country-specific recommendations to be adopted by the Council in 2020.

Table 2: Overview of individual Commission opinions on the Draft Budgetary Plans

Member States	Overall compliance of the Draft Budgetary Plan with the Stability and Growth Pact		Progress with implementing the fiscal-structural part of the 2019 country-specific recommendations
	Overall conclusion of compliance based on the Commission 2019 autumn forecast	Compliance with the preventive arm requirements in 2019 and 2020	
BE[1,2]	Risk of non-compliance	2019: risk of a significant deviation from the adjustment path towards the medium-term budgetary objective, prima facie non-compliance with the debt reduction benchmark; 2020: risk of a significant deviation from the adjustment path towards the medium-term budgetary objective, prima facie non-compliance with the debt reduction benchmark.	Limited progress
ES[2,3]	Risk of non-compliance	2019: risk of a significant deviation from the adjustment path towards the medium-term budgetary objective, prima facie non-compliance with the transitional debt reduction benchmark; 2020: risk of a significant deviation from the adjustment path towards the medium-term budgetary objective, prima facie non-compliance with the transitional debt reduction benchmark.	Limited progress
FR[4]	Risk of non-compliance	2019: risk of a significant deviation from the adjustment path towards the medium-term budgetary objective, prima facie non-compliance with the transitional debt reduction benchmark; 2020: risk of a significant deviation from the adjustment path towards the medium-term budgetary objective, prima facie non-compliance with the transitional debt reduction benchmark.	Limited progress
IT[5]	Risk of non-compliance	2019: risk of a significant deviation from the adjustment path towards the medium-term budgetary objective, prima facie non-compliance with the debt reduction benchmark; 2020: risk of a significant deviation from the adjustment path towards the medium-term budgetary objective, prima facie non-compliance with the debt reduction benchmark.	Some progress
PT[2]	Risk of non-compliance	2019: risk of a significant deviation from the adjustment path towards the medium-term budgetary objective, compliance with the transitional debt reduction benchmark; 2020: risk of a significant deviation from the adjustment path towards the medium-term budgetary objective, compliance with the debt reduction benchmark.	Limited progress
SI	Risk of non-compliance	2019: risk of a significant deviation from the adjustment path towards the medium-term budgetary objective, compliance with the debt reduction benchmark; 2020: risk of some deviation from the adjustment path towards the medium-term budgetary objective in 2020; risk of a significant deviation from the adjustment path towards the medium-term budgetary objective based on 2019 and 2020 taken together, compliance with the debt reduction benchmark.	Limited progress
SK	Risk of non-compliance	2019: risk of a significant deviation from the adjustment path towards the medium-term budgetary objective; 2020: risk of some deviation from the adjustment path towards the medium-term budgetary objective in 2020; risk of a significant deviation from the adjustment path towards the medium-term budgetary objective based on 2019 and 2020 taken together.	Limited progress
FI	Risk of non-compliance	2019: risk of some deviation from the adjustment path towards the medium-term budgetary objective; 2020: risk of a significant deviation from the adjustment path towards the medium-term budgetary objective.	Limited progress
EE	Broadly compliant	2019: risk of some deviation from the adjustment path towards the medium-term budgetary objective; 2020: risk of some deviation from the adjustment path towards the medium-term budgetary objective.	n.r.
LV	Broadly compliant	2019: close to the medium-term budgetary objective adjusted for a temporary deviation allowance, while risk of a significant	Some progress

		deviation from the expenditure benchmark requirement based on 2018 and 2019 taken together; 2020: close to the medium-term budgetary objective, while risk of significant deviation from the expenditure benchmark requirement	
DE	Compliant	2019: medium-term budgetary objective respected; 2020: medium-term budgetary objective respected.	Some progress
IE	Compliant	2019: compliance with the adjustment path towards the medium-term budgetary objective, compliance with the debt reduction benchmark; 2020: medium-term budgetary objective respected.	Limited progress
EL[6]	Compliant	2019: compliance with the transitional debt reduction benchmark; 2020: medium-term budgetary objective respected, compliance with the debt reduction benchmark.	n.r. [7]
CY[8]	Compliant	2019: medium-term budgetary objective respected, compliance with the debt reduction benchmark; 2020: medium-term budgetary objective respected, compliance with the debt reduction benchmark.	Limited progress
LT	Compliant	2019: close to the medium-term budgetary objective adjusted for a temporary deviation allowance, while risk of a significant deviation from the expenditure benchmark requirement; 2020: medium-term budgetary objective respected.	Some progress
LU	Compliant	2019: medium-term budgetary objective respected; 2020: medium-term budgetary objective respected.	Limited progress
MT	Compliant	2019: medium-term budgetary objective respected; 2020: medium-term budgetary objective respected.	Limited progress
NL	Compliant	2019: medium-term budgetary objective respected; 2020: medium-term budgetary objective respected.	Some progress
AT[2]	Compliant	2019: medium-term budgetary objective respected, compliance with the debt reduction benchmark; 2020: medium-term budgetary objective respected, compliance with the debt reduction benchmark.	Limited progress

1 The Commission issued a report on 5 June 2019 in accordance with Article 126(3) TFEU in which it concluded that the analysis was not fully conclusive as to whether the debt criterion was or was not complied with.

2 Draft Budgetary Plan submitted on a no-policy-change basis.

3 The EDP for Spain was abrogated on 14 June 2019 as the deficit had been brought below 3% of GDP in 2018 and it was projected to stay below 3% in 2019 and 2020. Spain is therefore subject to the preventive arm of the Stability and Growth Pact.

4 The Commission issued a report on 5 June 2019 in accordance with Article 126(3) TFEU in which it concluded that the deficit and debt criteria as defined in the Treaty should be considered as complied with.

5 The Commission issued a report on 5 June 2019 in accordance with Article 126(3) TFEU in which it concluded that the debt criterion should be considered as not complied with. Following Italy's updated fiscal plans of 1 July 2019 entailing a fiscal correction for 2019, the Commission issued a communication and sent a letter to the Italian authorites in July 2019, concluding that the package of measures adopted was sufficient not to open an EDP for Italy’s lack of compliance with the debt criterion in 2018 at that stage.

6 Following the abrogation of the Excessive Deficit Procedure on 19 September 2017 and the completion of the ESM stability support programme on 20 August 2018, Greece became subject to the preventive arm of the Stability and Growth Pact and should preserve a sound fiscal position which ensures compliance with the primary surplus target set by Decision (EU) 2017/1226 on 30 June 2017 of 3.5% of GDP for 2018 and over the medium term. Since Greece was exempt from submitting Stability Programmes while it was under the programme, the Greek authorities did not establish a medium-term budgetary objective for 2018 and 2019. Greece established its medium-term objective of 0.25% of GDP for 2020-2022 in the 2019 Stability Programme.

7 The progress with implementation of the fiscal-structural part of the 2019 country-specific recommendations is monitored under the enhanced surveillance framework.

8 The Commission issued a report on 5 June 2019 in accordance with Article 126(3) TFEU in which it concluded that further steps leading to a decision on the existence of an excessive deficit should not be taken.