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Assessment of the 2020 Stability Programme for

Germany

(Note prepared by DG ECFIN staff)

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Executive Summary

- On 6 April 2020, the Commission provided guidelines to the Economic and Financial Committee on how the format and content of the 2020 Stability and Convergence Programmes can be streamlined in light of the exceptional circumstances related to the Covid-19 pandemic. This assessment takes into account the severe constraints that Member States faced in providing the information usually required in their Programmes. The assessment focuses on the near term in light of the high uncertainty attached to the projections.

- The 2020 Stability Programme as well as the Commission 2020 spring forecast expect a strong economic downturn in 2020 with real GDP decreasing by 6.0% and 6.5%, respectively.

- Given the sizeable package of measures taken by the German government in response to the outbreak of the COVID-19 pandemic, both the Stability Programme and the Commission 2020 spring forecast project the government balance to decrease from a surplus of 1.4% of GDP in 2019 to a deficit of around 7% in 2020.

- The main policy measures taken in response to the COVID-19 pandemic aim to stabilise and protect the economy and to contain the consequences caused by the economic inactivity and downturn. The measures include liquidity support in form of loans and tax deferrals for companies as well as grants for small companies and self-employed. Easier access to the short-time working scheme is intended to keep people employed and prevent lay-offs and a sharp rise in the unemployment rate. Overall, the Stability Programme includes deficit-relevant measures in the order of 7.2% of GDP.

- Germany’s debt level stood at 59.8% of GDP at the end of 2019, falling below the 60% Treaty reference value for the first time since 2002. With the sizeable package of COVID-19-related measures and given the sharp decline in nominal GDP, government debt is projected to increase to over 75% of GDP in 2020, based on both the Stability Programme and the Commission forecast. Based on the Commission forecast, government debt is projected to resume its downward trend of the past years in 2021.

- The macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic.

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2020 Stability Programme of Germany covering the period 2020 (hereafter called the Programme), which was submitted on 30 April 2020[1]. The Stability Programme submitted by Germany states that it also constitutes the national medium-term fiscal plan required under Article 4(1) of Regulation (EU) 473/2013.[2] The note also assesses Germany's compliance with the preventive arm of the Stability and Growth Pact in 2019. The government approved the Programme on 22 April 2020.

Germany is currently subject to the preventive arm of the Stability and Growth Pact (SGP).

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

Germany is among those Member States that have triggered national escape clauses to suspend budgetary constraints set by their national fiscal rules, as part of the effort to accommodate the budgetary implications of the outbreak.

2. MACROECONOMIC DEVELOPMENTS

Measures to contain the spread of COVID-19 were introduced in the second half of March. They entail minimising social contact and keeping distance among individuals. Schools and kindergartens were closed, as well as retailer outlets (excluding food stores and pharmacies), restaurants and establishments offering

[1] The Stability Programme contains only short-term budgetary projections, in line with the guidelines for a streamlined format of the 2020 Stability and Convergence Programmes in light of the COVID-19 outbreak, provided by the Commission services on 6 April 2020 with the exception of data on the GDP components and employment as well as qualitative information for 2021 and the medium-term plan on general government debt and deficit, reflecting the economic assumptions outlook and the impact of the measures taken.

[2] However, the 2020 Stability Programme provides no data or qualitative explanations beyond 2020.

services requiring close contact. Cross-border traffic has been restricted, allowing only justified exceptions. Certain shops and establishments have been allowed to reopen since 20 April under strict hygienic and distance requirements. Plans to gradually reopen schools are being developed. Manufacturing is not subject to specific restrictions, but some plants were shut due to low demand.

After economic growth reached 0.6% in 2019, mainly supported by the robust performance of domestic demand, the macroeconomic scenario underlying the Programme assumes real GDP to decline by 6% as a result to the COVID-19 pandemic. Due to the high uncertainty, no explicit assumptions regarding 2021 or the evolution of demand components are presented, but a clear awareness of the adverse economic impact of the COVID-19 outbreak is expressed in qualitative terms.

The Commission 2020 spring forecast (hereafter Commission forecast) projects GDP to decline by 6.5% in 2020, broadly in line with the Stability Programme, and reflecting the disruption in economic activity caused by the lockdown measures and an unprecedented fall in external demand in the first half of 2020. Private consumption is projected to be hard-hit due to increased uncertainty of consumers, an increase in unemployment, a sharp drop in wage growth and the likely lasting capacity restrictions in many consumer services. Business investment is also set to fall strongly in 2020 as uncertainty mounts and expectations of lower demand are likely to have an impact on firm’s investment plans. In 2021, real GDP is expected to grow by 5.9%, as activity normalizes. Nonetheless, GDP is unlikely to return to 2019 levels before 2022 and the resumption of activity is set to be rather uneven across sectors due to the complex interplay of the sanitary and economic implications of the crisis.

The authorities deviated from the practice of using the Annual Economic projection released on 29 January, rendered obsolete by the COVID-19 outbreak. Instead, an ad-hoc projection for real and nominal GDP for 2020 has been used. Due to the extraordinary circumstances and time constraints, this projection has not been endorsed by an independent fiscal institution. Nevertheless, the GDP projection underlying of the ad-hoc forecast of the Programme is similar to the one in the Spring Projection of the Federal Government released on 29 April. The latter has been duly endorsed by the project group Joint Economic Forecast, which is the designated independent fiscal institution. The endorsing statement was published on the web site of the Joint Economic Forecast on the day of the release of the Spring Projection. It does not contain qualifiers or reservations.

Table 1: Comparison of macroeconomic developments and forecasts

	2019		2020		2021		2022	2023
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	0.6	0.6	-6.5	-6.0	5.9	n.a.	n.a.	n.a.
Private consumption (% change)	1.6	1.6	-8.3	n.a.	6.0	n.a.	n.a.	n.a.
Gross fixed capital formation (% change)	2.6	2.5	-5.8	n.a.	5.9	n.a.	n.a.	n.a.
Exports of goods and services (% change)	0.9	0.9	-12.1	n.a.	10.3	n.a.	n.a.	n.a.
Imports of goods and services (% change)	1.9	1.9	-9.2	n.a.	8.6	n.a.	n.a.	n.a.
Contributions to real GDP growth:								
- Final domestic demand	1.9	n.a	-5.0	n.a.	4.8	n.a.	n.a.	n.a.
- Change in inventories	-0.9	n.a	0.5	n.a.	-0.1	n.a.	n.a.	n.a.
- Net exports	-0.4	n.a	-1.9	n.a.	1.2	n.a.	n.a.	n.a.
Output gap[1]	1.0	0.7	-6.4	n.a.	-2.0	n.a.	n.a.	n.a.
Employment (% change)	0.9		-0.9	n.a.	0.6	n.a.	n.a.	n.a.
Unemployment rate (%)	3.2		4.0	n.a.	3.5	n.a.	n.a.	n.a.
Labour productivity (% change)	-0.3		-5.6	n.a.	5.2	n.a.	n.a.	n.a.
HICP inflation (%)	1.4		0.3	n.a.	1.4	n.a.	n.a.	n.a.
GDP deflator (% change)	2.2	2.2	2.1	1.8	1.6	n.a.	n.a.	n.a.
Comp. of employees (per head, % change)	3.2		-0.6	n.a.	3.2	n.a.	n.a.	n.a.
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	7.4		5.9	n.a.	7.2	n.a.	n.a.	n.a.

Note:

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

Source :

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

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS AND MEDIUM-TERM STRATEGY AND TARGETS[3]

Germany recorded a general government budget surplus of 1.4% of GDP in 2019, compared to projections of ¾% of GDP in the 2019 Stability Programme and of 1¼% of GDP in the 2019 Draft Budgetary Plan (DBP). The improved budget outcome was largely due to higher than expected tax revenue together with lower interest spending. The general government structural surplus in 2019 amounted to 0.9% of GDP, somewhat lower than in the projections of the 2019 DBP of 1¼% of GDP but close to the 2019 Stability Programme of ¾% of GDP.

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

For 2020, the Programme plans a general government budget deficit of 7¼% of GDP due to the sizeable measures adopted in response to the COVID-19 pandemic. The various subsidies and social transfers lead to a strong increase of the expenditure ratio from 45.4% of GDP in 2019 to 54½% of GDP in 2020. According to the Programme, around 0.2% of GDP of the measures with a budgetary effect in 2020 are related to higher spending in the context of the statutory health and long-term care insurance. Most measures (with a budgetary impact of 7.0% of GDP) aim at stabilising and protecting the economy.

The Commission forecast expects the headline balance to deteriorate to -7.0% of GDP in 2020, which is due to the effect of automatic stabilizers and the budgetary impact of measures related to the COVID-19 pandemic. Contrary to the budgetary projections of the Programme, the Commission forecast does not assume an immediate budgetary effect from tax deferrals and budgetary compensations for lower tax revenues, which reduces the total budgetary impact of included measures to 4.7% of GDP.

Due to the uncertainty caused by the COVID-19 pandemic no medium-term fiscal projections are included in the Stability Programme. Nevertheless, broad medium-term goals are mentioned in the Stability Programme such as the fight against the COVID-19 pandemic and its economic consequences. Besides, advancing climate change and increasing overall public investment while strengthening social equity and social cohesion remain further long-term goals.

Germany has set its medium-term budgetary objective (MTO) at -0.5% of GDP. The MTO reflects the objectives of the Pact.

Table 2: General government budgetary position

(% of GDP)	2019	2020		2021		2022	2023	Change: 2019-2023
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**46.8**	**47.2**	**47¼**	**46.8**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
of which:								
- Taxes on production and imports	10.7	10.5	10¼	10.5	n.a.	n.a.	n.a.	**n.a.**
- Current taxes on income, wealth, etc.	13.3	12.7	12¾	13.2	n.a.	n.a.	n.a.	**n.a.**
- Social contributions	17.4	18.3	18¼	17.6	n.a.	n.a.	n.a.	**n.a.**
- Other (residual)	5.4	5.7	5¾	5.5	n.a.	n.a.	n.a.	**n.a.**
Expenditure	**45.4**	**54.2**	**54½**	**48.3**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
of which:								
- Primary expenditure	44.6	53.5	53½	47.6	n.a.	n.a.	n.a.	**n.a.**
of which:								
Compensation of employees+Intermediate consumption	13.1	14.5	14½	13.8	n.a.	n.a.	n.a.	**n.a.**
Compensation of employees	7.9	8.7	8¾	8.2	n.a.	n.a.	n.a.	**n.a.**
Intermediate consumption	5.2	5.8	5¾	5.6	n.a.	n.a.	n.a.	**n.a.**
Social payments	24.6	27.5	27¾	26.4	n.a.	n.a.	n.a.	**n.a.**
Subsidies	0.9	3.5	3½	1.0	n.a.	n.a.	n.a.	**n.a.**
Gross fixed capital formation	2.5	2.8	2¾	2.8	n.a.	n.a.	n.a.	**n.a.**
Other (residual)	3.4	5.2	5¼	3.6	n.a.	n.a.	n.a.	**n.a.**
- Interest expenditure	0.8	0.7	¾	0.7	n.a.	n.a.	n.a.	**n.a.**
General government balance (GGB)	**1.4**	**-7.0**	**-7¼**	**-1.5**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Primary balance	**2.3**	**-6.3**	**-6½**	**-0.8**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
One-off and other temporary measures	0.0	0.0	0.0	0.0	n.a.	n.a.	n.a.	**n.a.**
GGB excl. one-offs	**1.4**	**-7.0**	**-7¼**	**-1.5**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Output gap[1]	1.0	-6.4	n.a.	-2.0	n.a.	n.a.	n.a.	**n.a.**
Cyclically-adjusted balance[1]	0.9	-3.8	n.a.	-0.5	n.a.	n.a.	n.a.	**n.a.**
Structural balance[2]	**0.9**	**-3.8**	**n.a.**	**-0.5**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Structural primary balance[2]	1.7	-3.0	n.a.	0.2	n.a.	n.a.	n.a.	**n.a.**
Gross debt ratio	**59.8**	**75.6**	**75¼**	**71.8**	**n.a.**	**n.a.**	**n.a.**	**n.a.**

Notes:

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

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

Source :

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

3.2. MEASURES UNDERPINNING THE PROGRAMME

The German government decided on sizeable expenditure measures in response to the COVID-19 pandemic that were adopted by Parliament on 25 March 2020. The federal government also adopted a supplementary budget of EUR 156 billion (4.7% of GDP) for 2020, which constitutes almost half of the annual federal budget. Germany also triggered the clause for exceptional emergency situations to allow the extra spending under its national fiscal rules, the so-called debt brake. The sizeable package of measures was possible as Germany in the past few years had a very

favourable fiscal situation with sound public finances that allowed to build up reserves and be prepared for difficult times.

The measures include additional funding for the healthcare system to cope with the pandemic, research on the virus and a vaccine. The large majority of measures however aim at stabilising and protecting the economy as well as containing the consequences due to the downturn in economic activity. Companies can receive liquidity support in form of loans and tax deferrals as well as adjustment of tax pre-payments. Especially, small companies and self-employed can receive financial assistance in form of grants and loans. By enabling easier access to the short-time working scheme (*Kurzarbeit*) the government intends to keep people employed and prevent lay-offs.

Most of the measures are considered to become fully effective in 2020 as a quick reaction to the COVID-19 crisis. The budgetary projections in the Programme include discretionary measures with a total impact of 7.2% of GDP, leading to an extraordinary deficit after many years of surpluses. The Commission forecast includes discretionary measures taken in response to the COVID-19 pandemic in the order of 4.7% of GDP as compensatory measures for the decline in tax revenues due to the downturn in economic activity are not considered to be part of the measures but of automatic stabilisers.

Moreover, the government has increased the guarantee framework of its state-owned development bank KfW (*Kreditanstalt für Wiederaufbau*) by EUR 357 billion (10.8% of GDP) and created an Economic Stabilisation Fund of EUR 400 billion (12.2% of GDP) to provide the means for the needed liquidity support. The increase in the guarantee framework amounts to around EUR 820 billion (24.9% of GDP), whereby the government had announced that if needed it would provide liquidity support to an unlimited extent.

Overall, the measures taken by Germany are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak.[4] The measures appear timely, temporary and targeted at cushioning the shock induced by COVID-19. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term. The number and size of measures taken by the German government appear to be a forceful timely, targeted and temporary response to the sudden economic downturn created by the outbreak of the COVID-19 pandemic. Companies and self-employed are provided support in form of grants and loans to help them to get over the period of reduced economic activity and to be ready for business again after the lockdown measures are lifted.

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

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

List of measures	Description	ESA Code (Expenditure / Revenue component)	Adoption Status	Budgetary impact (% of GDP - change from previous year)		
					2020	2021
50.0 billion EUR	Immediate assistance for small companies and self-employed individuals	D.39 Expenditure	Retroactive from 1.1.2020		-1.5	n.a.
55.0 billion EUR	Other assistance	D.39 / D.7 Expenditure	Retroactive from 1.1.2020		-1.7	n.a.
7.5 billion EUR	Unemployment benefit II (basic income support), housing and heating costs	D.62 Expenditure	Retroactive from 1.1.2020		-0,2	n.a.
1.6 billion EUR	Indemnifications arising from domestic guarantees	D.9 Expenditure	Retroactive from 1.1.2020		-0.0	n.a.
3.9 billion EUR	Other	P.2, P.5, D.62, D.79 Expenditure	Retroactive from 1.1.2020		-0.1	n.a.
82.5 billion EUR	Tax measures and other reductions in tax revenue	D.2, D.5 Revenue	Effective as of 19.3.2020		-2.5	n.a.
18.0 billion EUR	Ongoing grants and subsidies by Länder	D.7 Expenditure	n.a.		-0.5	n.a.
2.1 billion EUR	Housing and heating costs	D.62 Expenditure	Effective as of 28.3.2020		-0.1	n.a.
4.1 billion EUR	Compensation for short-time work	D.62 Expenditure	Retroactive from 1.3.2020		-0.1	n.a.
6.0 billion EUR	Reimbursement of social security contributions	D.39 Expenditure	Retroactive from 1.3.2020		-0.2	n.a.
5.2 billion EUR	Additional expenditures for statutory health insurance and long-term care insurance	D.1, D.61, D.63, D.7, P.2 Expenditure	Effective as of 28.3.2020		-0.2	n.a.
				Total	**-7.2**	**n.a.**

Source: Stability Programme

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

List of measures	Description	Adoption Status	Maximum amount of contingent liability* (% of GDP)	
356.5 billion EUR	Expansion of the guarantee framework of the federal government: Domestic guarantees including KfW special programme (€93bn), guarantee banks, high-volume guarantees, agriculture, ERP private equity programme (ERP-Beteiligungsprogramm), etc.	Adopted in March 2020		10.8
400 billion EUR	Economic Stabilisation Fund: guarantees provided to companies			12.2
63.2 billion EUR	Expansion of the guarantee framework of the state government / Länder			1.9
			Total	**24.9**

* Any possible budgetary impact related to the call of those guarantees should be provided in Table 1

Source: Stability Programme

3.3. DEBT DEVELOPMENTS

Government debt stood at 59.8% of GDP at the end of 2019, falling below the 60% of GDP Treaty reference value for the first time since 2002, reflecting strong economic growth and primary budget surpluses. Due to the sizeable measures taken in response to the COVID-19 pandemic the Stability Programme projects government debt to rise above 75% of GDP in 2020. This projection is in line with the Commission forecast, which expects the debt to GDP ratio to increase to 75.6% in 2020 before dropping to 71.8% of GDP in 2021. The projected increase of the debt ratio in 2020 is largely driven by the deterioration of the primary balance and a large stock-flow-adjustment resulting from the set-up of the Economic Stabilisation Fund (*Wirtschaftsstabilisierungsfond*).

Table 5: Debt developments

(% of GDP)	Average 2014-2018	2019	2020		2021		2022	2023
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**68.8**	**59.8**	**75.6**	**75¼**	**71.8**	**n.a.**	**n.a.**	**n.a.**
Change in the ratio	-3.4	-2.1	15.9	15½	-3.8	n.a.	n.a.	n.a.
Contributions [2] :								
1. Primary balance	**-2.4**	**-2.3**	**6.3**	**6½**	**0.8**	**n.a.**	**n.a.**	**n.a.**
2. "Snow-ball" effect	**-1.2**	**-0.8**	**3.4**	**3.4**	**-4.6**	**n.a.**	**n.a.**	**n.a.**
Of which:								
Interest expenditure	1.2	0.8	0.7	¾	0.7	n.a.	n.a.	n.a.
Growth effect	-1.4	-0.3	4.0	3.7	-4.1	n.a.	n.a.	n.a.
Inflation effect	-1.0	-1.3	-1.3	-1.2	-1.1	n.a.	n.a.	n.a.
3. Stock-flow adjustment	**0.3**	**1.0**	**6.1**	**n.a.**	**0.0**	**n.a.**	**n.a.**	**n.a.**

Notes:

[1] End of period.

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

Source :

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

3.4. RISK ASSESSMENT

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

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

4.1. Compliance with the deficit criterion

According to the Programme, Germany's general government deficit is expected to reach around 7% of GDP in 2020, thereby exceeding the Treaty reference value of 3% of GDP. This provides prima facie evidence of the existence of an excessive deficit in Germany for the purposes of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3) TFEU analysing whether or not Germany is compliant with the deficit criterion of the Treaty. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

4.2. Compliance with the debt criterion

The debt benchmark is expected not to be met in 2020, and to be respected in 2021 based on the Commission 2020 spring forecast.

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

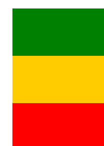
Germany is subject to the preventive arm of the Stability and Growth Pact and should ensure compliance with its MTO. In 2019, Germany recorded a structural surplus of 0.9% of GDP, in compliance with its MTO of -0.5% of GDP. The assessment of both the Programme as well as the Commission forecast indicate that Germany respected its MTO in 2019, and thus complied with the provisions of the preventive arm of the Stability and Growth Pact.

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

Table 6: Compliance with the requirements under the preventive arm

	(% of GDP)	2019	2020		2021	
	Background budgetary indicators[1]					
(1)	Medium-term objective (MTO)	-0.5	-0.5		-0.5	
(2)	Structural balance[2] (COM)	0.9	-3.8		-0.5	
	Setting the required adjustment to the MTO					
(3)	Structural balance based on freezing (COM)	1.1				
(4) = (1) - (3)	Position vis-a -vis the MTO[3]	At or above the MTO				
(5)	Required adjustment[4]	0.0				
(6)	Required adjustment corrected[5]	-1.9				
(8)	Corresponding expenditure benchmark[6]	8.2				
	Compliance with the required adjustment to the MTO					
		COM	**COM**	**SP**	**COM**	**SP**
	Structural balance pillar					
(8) = Δ (2)	Change in structural balance[7]	-0.3				
(9) = (8) - (6)	*One-year deviation from the required adjustment*[8]	1.7				
	Two-year average deviation from the required adjustment[8]	1.9				
	Expenditure benchmark pillar					
(10)	Net public expenditure annual growth corrected for one-offs[9]	5.8				
(11) = (10) - (8)	One-year deviation adjusted for one-offs[10]	1.0				
	Two-year deviation adjusted for one-offs[10]	1.0				
	Finding of the overall assessment	**Compliance**				
	Compliance with the debt criterion					
	Transition period					
	Required structural adjustment (MLSA)[11]					
	Structural adjustment[12]					
	After transistion period					
	Gap to the debt benchmark [13,14]		2.2	n.a.	-2.4	n.a.

Legend



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

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

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

Notes

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

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

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

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

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

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

[7] Change in the structural balance compared to year t-1. Ex post assessment (for 2019) is carried out on the basis of Commission 2020 spring forecast.

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

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

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

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

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

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

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

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