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Assessment of the 2020 Convergence Programme for

Denmark

(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.
- Denmark recorded real GDP growth of 2.4% in 2019, driven by domestic demand and with a positive contribution from net exports. For 2020, a severe economic downturn is expected due to the COVID-19 pandemic that will affect a wide range of economic activities and seriously disrupt global trade patterns and value chains. The Commission 2020 spring forecast projects a fall in real GDP of 5.9%, while a downturn of 4.4% of GDP is expected in the Convergence Programme in 2020. The sharp downturn is expected to come to an end in the second half of 2020, giving way to a strong recovery. Accordingly, the Commission 2020 spring forecast projects 5.1% real GDP growth in 2021, while the Convergence Programme projects 4.8% growth in 2021.
- In 2019, Denmark recorded a general government budgetary surplus of 3.7% of GDP, driven not least by large revenues from the pension yield tax, while the gross debt ratio stood at 33.2% of GDP. The severe downturn expected for this year in combination with the adopted emergency measures to mitigate the effects of the pandemic is set to imply a deficit of 7.2% of GDP in 2020 according to the Commission 2020 spring forecast, compared to 8.0% of GDP in the Convergence Programme. Based on the Commission 2020 spring forecast the gross debt-to-GDP ratio to 44.7% of GDP in 2020, while according to the Convergence Programme the debt ratio is expected at 40.7% of GDP this year. For 2021, the Commission spring forecast projects the budget deficit to decline to 2.3% of GDP, while the Convergence Programme projects a budget deficit of 2.4% of GDP. The gross debt ratio could stand at 44.6% of GDP (Commission forecast) or 41.2% of GDP (Programme) in 2021.
- Denmark took a range of measures to cushion the impact of the pandemic on the real economy, such as compensatory subsidies (notably covering in part companies' wage expenditures and fixed costs), tax deferrals and other liquidity measures. The measures appear to be considered adequate, timely and commensurate. The expenditure measures could constitute additional general government expenditures of 4.9% of GDP. In addition, state guarantees for bank loans and other conditional obligations pose a risk of additional expenditure later.
- The macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic. Furthermore, the amount of pension yield tax revenues and the future economic relationship with the United Kingdom constitute country-specific risks. Finally, Eurostat had to make a reservation on the approval of 2019 Excessive Deficit Procedure figures for Denmark, raising questions over the reliability of the data material and making revisions to historical data particularly likely.

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2020 Convergence Programme of Denmark covering the period 2020-2021 (hereafter called the Programme), which was submitted on 5 May 2020[1]. The note also assesses Denmark's compliance with the preventive arm of the Stability and Growth Pact in 2019.

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

2. MACROECONOMIC DEVELOPMENTS

Denmark entered the coronavirus crisis with strong economic fundamentals and without any major macroeconomic imbalances. Real GDP expanded by 2.4% in 2019, above its potential growth rate, with positive contributions from all demand components. The general government budget recorded a surplus of 3.7% of GDP last year. These favourable trends continued into 2020 before coming to an abrupt halt in early March when economic activity took a sharp downturn following the introduction of restrictions to prevent the spread of the pandemic.

Due to the high level of uncertainty, the 2020 Convergence Programme presents three macroeconomic short-term scenarios, but no medium term projection. The first scenario assumes a rapid recovery of production, employment with the epidemic under control and restrictions lifted implying a significant recovery already in the second half of 2020, which is set to continue into 2021. This scenario forecasts a decline in real GDP of 3% in 2020 followed by an increase of 3.9% in 2021. The second scenario assumes a more gradual recovery due to slower demand growth

1 The Convergence 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. The programme was submitted after the deadline of 30 April established by the Regulation.

domestically and abroad. Accordingly, this scenario projects a fall in real GDP by 4.4% in 2020 followed by a rebound of 4.8% in 2021. The third scenario assumes a longer lasting pandemic and therefore a sharper decline of production and consumption, stronger increase of unemployment and a limited recovery in 2021. In this scenario, real GDP sets to fall by 6% in 2020 followed only by a moderate growth of 2.5% in 2021. In all scenarios, the GDP level at the end of 2021 is below the level reached in 2019. The number of unemployed persons could increase by around 105,000, 130,000 or 150,000, depending on the scenario. Only in the first scenario would unemployment in 2021 fall close to the level reached in 2019.

The Programme presents detailed budgetary projections and excessive deficit procedure related information exclusively on the basis of the second scenario. Accordingly, this assessment report is based on the comparison with the Programme's second scenario.

The Commission 2020 spring forecast projects real GDP to contract by 5.9% in 2020, reflecting the disruption in economic activity caused by the lockdown measures and an unprecedented fall in external demand. Output is set to drop strongly in the first half of the year and then to gradually recover from the third quarter onwards. In 2021, GDP is forecast to rebound by 5.1% driven by a strong recovery in household consumption and investment. Nonetheless, the nominal GDP level at the end of 2021 is expected to remain below the level reached in 2019. The Commission 2020 spring forecast projection for real GDP in 2020 is more negative than the second scenario of the Programme, mainly because the Commission 2020 spring forecast projects a stronger decline in private consumption in 2020. Both the Programme and the Commission 2020 spring forecast projects similar recovery in 2021. However, the Commission's 2020 spring forecast is more optimistic on the development of investments and trade as it is based on the assumption of a faster normalisation of the world economy in 2021.

Denmark put in place fiscal, liquidity and financial measures to mitigate the negative economic impact of the crisis (see section 3.2). According to the Programme, the discretionary measures amount to 4.9% of GDP and include, inter alia, direct support to partly cover businesses' fixed costs and wage expenditures as well as sector-specific aid measures supporting the most severely impacted businesses (such as event organisers, firms in the cultural sector and education). In addition, Denmark has implemented measures that, while not having an immediate budgetary impact, could potentially provide substantive liquidity support to businesses (approximately 15% of GDP). These measures include tax deferrals as well as loan guarantees. These targeted emergency measures were adopted swiftly, are temporarily applicable (expiring on 8 July 2020) and sizable, earmarking one of the highest amounts of budgetary expenditure support as a share of GDP in the EU so far.

The Programme makes no reference to involvement or endorsement of the macroeconomic scenario underpinning the Convergence Programme by the Fiscal Policy Council (DØRS).

Table 1: Comparison of macroeconomic developments and forecasts

	2019		2020		2021		2022	2023
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	2,4	2,4	-5,9	-4,4	5,1	4,8	n.a	n.a
Private consumption (% change)	2,2	2,2	-6,4	-2,0	5,9	3,5	n.a	n.a
Gross fixed capital formation (% change)	3,4	3,4	-9,5	-7,8	7,9	1,9	n.a	n.a
Exports of goods and services (% change)	1,6	1,6	-10,7	-7,4	8,7	5,4	n.a	n.a
Imports of goods and services (% change)	0,1	0,1	-8,8	-6,2	8,1	2,9	n.a	n.a
Contributions to real GDP growth:								
- Final domestic demand	1,9	1,9	-4,3	-2,3	4,5	2,1	n.a	n.a
- Change in inventories	-0,4	0,0	0,2	0,0	-0,2	0,0	n.a	n.a
- Net exports	0,8	0,8	-1,7	-1,1	0,8	1,5	n.a	n.a
Output gap[1]	0,0	-0,2	-7,6	-6,4	-5,0	-4,0	n.a	n.a
Employment (% change)	1,2	n.a	-1,6	n.a	1,4	n.a	n.a	n.a
Unemployment rate (%)	5,0	n.a	6,4	n.a	5,7	n.a	n.a	n.a
Labour productivity (% change)	1,2	n.a	-4,3	n.a	3,6	n.a	n.a	n.a
HICP inflation (%)	0,7	n.a	0,3	0,9	1,3	1,1	n.a	n.a
GDP deflator (% change)	1,0	1,0	0,5	1,3	1,8	1,4	n.a	n.a
Comp. of employees (per head, % change)	1,5	n.a	1,0	n.a	1,7	n.a	n.a	n.a
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	7,9	n.a	6,3	n.a	6,9	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); Convergence Programme (CP).

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. Deficit and debt developments and Medium-term strategy and targets[2]

In 2019, Denmark recorded a general government budget surplus of 3.7% of GDP. This outcome, which was much stronger than expected at the beginning of that year, was driven by an unexpected surge in revenue stemming from the pension yield tax. This reflected skyrocketing stock valuations along with a marked fall in interest rates and a corresponding surge in valuations of fixed income instruments, which together account for much of the holdings in Danish pension funds. The general government debt ratio stood at 33.2% of GDP in 2019.

For 2020, the Programme projects a general government deficit of 8.0% of GDP. The marked deterioration in the headline balance can be ascribed to (i) the deterioration of the macroeconomic outlook, (ii) the operations of automatic stabilisers amid the deep recession caused by the pandemic and (iii) government emergency measures with the objective of shielding businesses and employees from the impact of the recession. The Programme lists emergency measures on the expenditure side corresponding to 4.9% of GDP, which are projected to contribute to a surge in the expenditure ratio from 48.6% of GDP to 57.4% of GDP, while the revenue ratio could fall from 52.2% of GDP to 49.4% of GDP. In the Programme, the emergency measures are counted as one-off measures.

The Programme plans a sharp improvement in the general government budget balance to a deficit of 2.4% of GDP in 2021. This would reflect the temporary nature of the emergency measures (planned to end in mid-2020), as well as an economic recovery from mid-2020 onwards. In the Programme, the figures for 2021 are projections under a no-policy-change assumption. The general government debt ratio is expected to rise to 40.7% of GDP in 2020 and further to 41.2% of GDP in 2021.

The Commission 2020 spring forecast foresees budget deficit of 7.2% of GDP in 2020. The deficit mainly reflects strong operations of automatic stabilisers during the 2020 recession, as well as emergency expenditures measures at the magnitude of 4.5% of GDP. The Commission forecasts a higher a gross debt ratio of 44.7% of GDP in 2020 than the Programme due to stock-flow adjustments, including investment in social housing. For 2021 the Commission projects a headline deficit of 2.3% of GDP and a gross debt ratio of 44.6% of GDP.

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

Table 2: General government budgetary position

(% of GDP)	2019	2020		2021		2022	2023	Change: 2019-2023
	COM	COM	CP	COM	CP	CP	CP	CP
Revenue	**53,3**	**52,0**	**49,4**	**51,2**	**48,0**	**n.a.**	**n.a.**	**n.a.**
of which:								
- Taxes on production and imports	15,7	15,8	15,9	15,5	15,4	n.a.	n.a.	**n.a.**
- Current taxes on income, wealth, etc.	30,8	29,0	28,0	28,9	27,3	n.a.	n.a.	**n.a.**
- Social contributions	0,8	0,8	0,0	0,8	0,0	n.a.	n.a.	**n.a.**
- Other (residual)	6,0	6,3	5,5	6,0	5,3	n.a.	n.a.	**n.a.**
Expenditure	**49,6**	**59,2**	**57,4**	**53,5**	**50,5**	**n.a.**	**n.a.**	**n.a.**
of which:								
- Primary expenditure	48,9	58,4	56,4	52,7	49,6	n.a.	n.a.	**n.a.**
of which:								
Compensation of employees+Intermediate consumption	23,6	26,4	25,1	25,3	24,2	n.a.	n.a.	**n.a.**
Compensation of employees	15,0	16,1	16,0	15,3	15,3	n.a.	n.a.	**n.a.**
Intermediate consumption	8,6	10,3	9,1	10,0	8,8	n.a.	n.a.	**n.a.**
Social payments	17,1	19,3	18,5	18,9	17,5	n.a.	n.a.	**n.a.**
Subsidies	1,6	5,4	2,2	1,8	1,6	n.a.	n.a.	**n.a.**
Gross fixed capital formation	3,3	3,6	3,6	3,3	3,4	n.a.	n.a.	**n.a.**
Other (residual)	3,3	3,6	7,0	3,5	2,8	n.a.	n.a.	**n.a.**
- Interest expenditure	0,7	0,8	1,0	0,8	0,9	n.a.	n.a.	**n.a.**
General government balance (GGB)	**3,7**	**-7,2**	**-8,0**	**-2,3**	**-2,4**	**n.a.**	**n.a.**	**n.a.**
Primary balance	**4,4**	**-6,4**	**-7,0**	**-1,5**	**-1,6**	**n.a.**	**n.a.**	**n.a.**
One-off and other temporary measures	0,0	-0,8	-4,8	0,0	-0,4	0,0	0,0	**0,0**
GGB excl. one-offs	**3,7**	**-6,3**	**-3,2**	**-2,3**	**-2,0**	**n.a.**	**n.a.**	**n.a.**
Output gap[1]	0,0	-7,6	-6,4	-5,0	-4,0	n.a.	n.a.	**n.a.**
Cyclically-adjusted balance[1]	3,6	-2,7	-4,0	0,6	0,1	n.a.	n.a.	**n.a.**
Structural balance[2]	**3,6**	**-1,9**	**0,8**	**0,6**	**0,5**	**n.a.**	**n.a.**	**n.a.**
Structural primary balance[2]	4,4	-1,1	1,8	1,4	1,4	n.a.	n.a.	**n.a.**
Gross debt ratio	**33,2**	**44,7**	**40,7**	**44,6**	**41,2**	**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 :

Convergence Programme (CP); Commission 2020 spring forecasts (COM); Commission calculations.

3.2. Measures underpinning the programme

Denmark swiftly put fiscal, liquidity and financial measures in place to mitigate the negative economic impact of the crisis. According to the Programme, the budgetary measures amount to 4.9% of GDP in 2020 with no budgetary impact in 2021. In addition, Denmark has allocated guarantees and liquidity support to businesses at a magnitude of around approximately 15% of GDP.

The largest discretionary expenditure item is direct support to partly cover businesses' fixed costs amounting to 2.9% of GDP, and a wage compensation scheme for employees as well as for self-employed amounting together to approximately 1.1% of GDP. In addition, Denmark designed sector-specific aid measures to support the most severely impacted sectors and for the civil society. There are aid schemes inter alia for event organisers, education, sport associations and social civil society organizations. The combined budgetary impact of these sectoral measures remains around 0.1% of GDP in 2020. Based on the experience of the first weeks after the introduction of these emergency measures, the take-up rate appears rather high. For instance, more than 170,000 employees were covered by the wage compensation scheme by 14 May 2020.

Overall, the measures taken by Denmark are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak.[3] Those measures appear to constitute a timely, temporary and targeted response to cushion the shock induced by the COVID-19 pandemic. 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.

In contrast to the Commission 2020 spring forecast, the Programme also includes as a discretionary measure an estimated loss on state guarantees related to the COVID-19 pandemic, which amounts to 0.5% of GDP in 2020. There are also differences between Programme's and the Commission assessment on the magnitude of the measures when expressed as a percentage of GDP. The difference stems from different macroeconomic projections: while the Programme estimates the size of discretionary measures based on the scenario of 4.4% fall of real GDP in 2020, the Commission estimates are based on its projection of 5.9% fall of real GDP in 2020.

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

Table 3: Discretionary measures 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
1	Wage compensation	D3	Adopted	-0.5	0
2	Compensation for fixed costs	D9	Adopted	-2.9	0
3	Compensation for self-employed, etc.	D9	Adopted	-0.6	0
4	Compensation for freelancers, etc.	D9	Adopted	<0.0	0
5	A number of compensation / grant schemes to cultural life, civil society etc.	D7	Adopted	<0.0	0
6	Compensation for organizers	D9	Adopted	-0.1	0
7	Suspending the municipal and regional expenditure fixed ceilings	P51	Adopted	-0.1	0
8	Suspension of seniority for unemployment benefit and sickness benefits 225-hour rule, etc.	D6	Adopted	<0.0	0
9	Expansion of sickness benefit reimbursement To employers, etc.	D6	Adopted	-0.1	0
10	A variety of measures such as deferral of payment deadlines etc. with the purpose of strengthening liquidity of businesses	-	Adopted	0	0
11	Loss on state guarantees	D9	Adopted	-0.5	0

12	Additional expenditure on public authority tasks and administration, including in health care, police, etc.	P3	Adopted		<0.0	0
13	A variety of different other minor actions with expense effect	Different	Adopted		<0.0	0
				Total	**-4.9**	<0.0

Source: Convergence 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)**	
1	State guarantees for small, medium-sized and large corporations	Adopted		**2.2**
2	State guarantee for the Travel Guarantee Fund	Adopted		0.1
3	State guarantee for SAS airlines	Adopted		<0.1
4	Guarantee framework and capital injection in the Growth Fund	Being implemented		0.1
5	Guarantee for EKF (the Danish export credit agency)	Being implemented		1.3
			Total	**3.7**

Source: Convergence Programme

In addition to COVID-19 related emergency measures, the Programme foresees one-off expenditures related to repayment of previously excessively collected property taxes of DKK 6.6 billion (0.3% of GDP) in 2020 and DKK 9.5 billion (0.4% of GDP) in 2021 altogether thus DKK 16.1 billion (0.7% of GDP). The Commission spring forecast assumed that DKK 18.5 billion (0.8% of GDP) would be paid out in 2020.

Table 5: Other main budgetary measures included in the Programme

2020
Expenditure: repayment of previously excessively collected property taxes of DKK 6.6 billion
2021
Expenditure: repayment of previously excessively collected property taxes of DKK 9.5 billion

3.3. 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.

A particular risk for the fiscal outlook, unrelated to the COVID-19 pandemic, concerns the pension yield tax. As witnessed in 2019, unexpectedly large changes in the valuation of stocks, bonds and other financial instruments can have a strong impact on the amount of pension yield tax. Danish pension funds liable to this tax have financial holdings above two times of Denmark's GDP.

The future economic relations with the United Kingdom raises particular risks to Denmark, for whom the United Kingdom is an important trading partner.

In terms of data quality, it is noted that Eurostat had to make a reservation on the approval of 2019 EDP figures for Denmark, raising questions over the reliability of the data material and making revisions to historical data particularly likely.

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

4.1. Compliance with the deficit criterion

According to the Convergence Programme, Denmark's general government deficit is expected to reach 8.0% 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 Denmark for the purposes of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3) TFEU, which analyses Denmark's compliance 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 medium-term budgetary objective[4]

Denmark is subject to the preventive arm of the Stability and Growth Pact. In 2019, the Council did not address a Stability and Growth Pact-related country-specific recommendation to Denmark in the context of fiscal surveillance under the European Semester in 2019, as the Council considered that Denmark complied with the Stability and Growth Pact.

Based on the outturn data and the Commission forecast, the ex-post assessment suggests that in 2019 Denmark respected its medium-term budgetary objective of a structural deficit of 0.5% of GDP, with a structural balance of 3.6% of GDP.

[4] 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)	3,6	-1,9		0,6	
	Setting the required adjustment to the MTO					
(3)	Structural balance based on freezing (COM)	2,1				
(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]	-1,3				
(8)	Corresponding expenditure benchmark[6]	5,9				
	Compliance with the required adjustment to the MTO					
		COM	COM	CP	COM	CP
	Structural balance pillar					
(8) = Δ (2)	Change in structural balance[7]	2,9				
(9) = (8) - (6)	*One-year deviation from the required adjustment*[8]	4,1				
	Two-year average deviation from the required adjustment[8]	2,7				
	Expenditure benchmark pillar					
(10)	Net public expenditure annual growth corrected for one-offs[9]	1,4				
(11) = (10) - (8)	One-year deviation adjusted for one-offs[10]	2,2				
	Two-year deviation adjusted for one-offs[10]	2,2				
	Finding of the overall assessment	**Compliance**				

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.

Source:

Convergence Programme (CP); Commission 2020 spring forecast (COM); Commission calculations.