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ECONOMIC AND FINANCIAL AFFAIRS

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Assessment of the 2020 Stability Programme for

Finland

(Note prepared by DG ECFIN staff)

CONTENTS

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 macroeconomic forecast underlying the Stability Programme assumes that Finland's GDP will contract by 5.5% in 2020 and grow by 1.3% in 2021. The Commission's forecast for Finland projects GDP to shrink 6.3% in 2020 and to rebound to 3.7% in 2021.
- The Stability Programme projects a headline balance at -7.2% of GDP in 2020 and -4.0% of GDP in 2021. The Commission forecasts a headline balance at -7.4% of GDP in 2020 and -3.4% of GDP in 2021.
- The package of COVID-19 related fiscal measures presented in the Stability Programme includes both expenditure and revenue measures as well as state guarantees and other measures to provide liquidity for the most affected sectors. The total expansionary impact of measures directly financed from the budget was estimated at EUR 3.8 billion in 2020 (1.7% of GDP) and EUR 0.4 billion in 2021 (0.1% of GDP). These measures have been entirely included in the Commission forecast. The total amount of liquidity support measures reported in the Programme amounts to EUR 12 billion (5.2% of GDP). The government stands ready to adopt new support measures if and as needed.
- The debt-to-GDP ratio is set to increase by 10 percentage points in 2020, up to 69%.
- 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[1] of Finland covering the period 2020-2022 (hereafter called the Programme), which was submitted on 30 April 2020[2]. The note also assesses Finland's compliance with the preventive arm of the Stability and Growth Pact in 2019. Finland 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.

Finland 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

Already prior to the crisis, Finland's economic growth was slowing down due to weakening private consumption and falling private investment. On the back of that trend, growth is expected to be severely affected as a result of the COVID-19 pandemic and the measures taken to contain it.

Finland is the only euro area Member State that has designated a Ministry of Finance department as the independent forecast producer in the meaning of Regulation (EU) 473/2013. The macroeconomic forecast underlying the Programme projects that Finland's GDP will contract by 5.5% in 2020 and grow by 1.3% in 2021. The contraction of world trade during the early part of 2020 is set to hit Finnish exports and imports. The restrictions introduced to contain the coronavirus pandemic are expected to weaken private consumption substantially. Temporary lay-offs and rising

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

[2] The 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.

unemployment are expected to reduce purchasing power, which in turn would also reduce demand for goods. The uncertain outlook may result in investments being postponed or cancelled, particularly in machinery and equipment.

The Programme expects the number of employed to decline by 2% in 2020 and the employment rate is estimated to fall to just over 71%. The number of unemployed people is set to increase significantly and the average annual unemployment rate might rise to 8% in 2020.

For 2021, the Programme expects world trade to return to its pre-crisis growth path allowing Finland's exports to recover. Private consumption is expected to growth in line with real incomes. Private investment is forecast to recover more slowly because major forest industry projects are being postponed and residential construction is continuing to decline. Faster economic growth and a slow rise in nominal wages should gradually increase demand for labour.

The Commission 2020 spring forecast (hereafter the Commission forecast) for Finland projects a deeper recession than the one of the Finnish Ministry of Finance for 2020, while expecting a somewhat stronger recovery for 2021, albeit from a lower baseline. Real GDP is forecast to contract by about 6.3% in 2020, dragged by a sharp decline in domestic demand, before rebounding by 3.7% in 2021. Private consumption and private investment are expected to be the main drivers of both the slowdown and the recovery, while government consumption is set to continue growing. The contribution of net exports is similar in the Commission and the Ministry's forecasts regarding 2020, as are developments in the labour market and inflation.

Table 1: Comparison of macroeconomic developments and forecasts

	2019		2020		2021		2022	2023
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	1.0	1.0	-6.3	-5.5	3.7	1.3	n.a.	n.a.
Private consumption (% change)	1.0	1.0	-7.9	-4.0	4.9	2.7	n.a.	n.a.
Gross fixed capital formation (% change)	-0.8	-0.8	-9.8	-7.1	9.1	-1.2	n.a.	n.a.
Exports of goods and services (% change)	7.2	7.2	-10.7	-6.2	7.3	3.2	n.a.	n.a.
Imports of goods and services (% change)	2.2	2.2	-8.6	-3.7	8.1	3.0	n.a.	n.a.
Contributions to real GDP growth:								
- Final domestic demand	0.5	0.5	-5.1	-2.7	4.0	0.8	n.a.	n.a.
- Change in inventories	-0.8	-1.4	-0.4	-1.8	0.0	0.5	n.a.	n.a.
- Net exports	1.9	1.9	-0.9	-1.0	-0.3	1.0	n.a.	n.a.
Output gap[1]	0.9	0.6	-5.4	-5.1	-3.1	-5.0	n.a.	n.a.
Employment (% change)	1.0	n.a.	-2.5	n.a.	1.1	n.a.	n.a.	n.a.
Unemployment rate (%)	6.7	n.a.	8.3	n.a.	7.7	n.a.	n.a.	n.a.
Labour productivity (% change)	0.0	n.a.	-4.0	n.a.	2.6	n.a.	n.a.	n.a.
HICP inflation (%)	1.1	1.1	0.5	0.6	1.4	1.4	1.6	n.a.
GDP deflator (% change)	1.8	1.8	1.8	1.2	1.8	1.8	1.9	n.a.
Comp. of employees (per head, % change)	1.6	n.a.	2.1	n.a.	2.8	n.a.	n.a.	n.a.
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-0.7	n.a.	-1.2	n.a.	-1.4	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

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]

The government headline balance for 2019 turned out to be -1.1% of GDP, in line with the Commission 2019 autumn forecast. This is slightly worse than -1% assumed in the 2020 Draft Budgetary Plan due to slightly higher government expenditure.

In 2020, the Programme forecasts a headline balance at -7.2% of GDP, reflecting primarily the impact of the economic downturn including the impact of automatic stabilisers of around -4% of GDP and the impact of COVID-19-related budgetary measures summing up to -1.7% of GDP. The government projects the headline balance at -4% in 2021 and -4.1% in 2022. The Commission forecasts a headline balance at -7.4% of GDP in 2020 and -3.4% of GDP in 2021.

The Programme does not include multiannual targets for the general government finances. It announces that Finland will submit the standard-form Stability Programme once the situation normalises, meeting both the national and EU requirements for a medium-term fiscal plan.

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

Table 2: General government budgetary position

(% of GDP)	2019	2020		2021		2022	2023	Change: 2019-2023
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**52.2**	**52.4**	**52.5**	**53.4**	**53.8**	**53.1**	**n.a.**	**n.a**
of which:								
- Taxes on production and imports	14.0	13.8	14.1	14.1	14.4	14.2	n.a.	**n.a**
- Current taxes on income, wealth, etc.	16.0	16.3	15.9	16.6	16.6	16.1	n.a.	**n.a**
- Social contributions	11.8	12.0	11.7	12.3	12.2	12.2	n.a.	**n.a**
- Other (residual)	10.4	10.4	10.8	10.4	10.6	10.6	n.a.	**n.a**
Expenditure	**53.3**	**59.8**	**59.8**	**56.8**	**57.9**	**57.2**	**n.a.**	**n.a**
of which:								
- Primary expenditure	52.4	59.0	59.0	56.2	57.2	56.5	n.a.	**n.a**
of which:								
Compensation of employees+Intermediate	23.3	26.0	25.8	24.8	25.2	25.1	n.a.	**n.a**
Compensation of employees	12.3	13.4	n.a.	13.0	n.a.	n.a.	n.a.	**n.a**
Intermediate consumption	11.0	12.6	n.a.	11.8	n.a.	n.a.	n.a.	**n.a**
Social payments	21.1	23.4	23.8	22.5	23.2	23.0	n.a.	**n.a**
Subsidies	1.2	1.9	1.8	1.4	1.4	1.2	n.a.	**n.a**
Gross fixed capital formation	4.2	4.8	4.8	4.6	4.7	4.5	n.a.	**n.a**
Other (residual)	2.7	2.9	2.8	2.9	2.8	2.7	n.a.	**n.a**
- Interest expenditure	0.9	0.8	0.8	0.7	0.7	0.7	n.a.	**n.a**
General government balance (GGB)	**-1.1**	**-7.4**	**-7.2**	**-3.4**	**-4.0**	**-4.1**	**n.a.**	**n.a**
Primary balance	**-0.3**	**-6.6**	**-6.5**	**-2.8**	**-3.4**	**-3.5**	**n.a.**	**n.a**
One-off and other temporary measures	0.1	0.0	0.0	0.0	0.0	0.0	n.a.	**n.a**
GGB excl. one-offs	**-1.2**	**-7.4**	**-7.2**	**-3.4**	**-4.0**	**-4.1**	**n.a.**	**n.a**
Output gap[1]	0.9	-5.4	-5.1	-3.1	-5.0	n.a.	n.a.	**n.a**
Cyclically-adjusted balance[1]	-1.6	-4.2	-4.3	-1.6	-1.1	n.a.	n.a.	**n.a**
Structural balance[2]	**-1.7**	**-4.2**	**-4.3**	**-1.6**	**-1.1**	**n.a.**	**n.a.**	**n.a**
Structural primary balance[2]	-0.9	-3.5	-3.5	-0.9	-0.4	n.a.	n.a.	**n.a**
Gross debt ratio	**59.4**	**69.4**	**69.1**	**69.6**	**71.5**	**73.8**	**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

Since early March, the Finnish government has adopted multiple measures to alleviate the negative impact of the pandemic on the economy. The COVID-19 related package includes both expenditure and revenue measures with direct impact on the general government balance as well as state guarantees and other measures to provide liquidity for the most affected sectors. The fiscal measures include emergency spending for protection of health and public order and support measures for businesses and employees (see Table 3). Their total deficit-increasing impact, as presented in the Programme, was estimated at EUR 3.8 billion in 2020 (1.7% of GDP) and EUR 0.4 billion in 2021 (0.1% of GDP). These measures have been entirely included in the Commission forecast.

The government guarantees reported in the Programme amount to EUR 12 billion (5.2% of GDP), consisting in EUR 10 billion of new lending guarantees by Finnvera, EUR 0.6 billion guarantees for Finnair, EUR 0.6 billion guarantees for shipping companies to ensure security of supply and EUR 0.8 billion announced guarantee for Employment Fund[4] for financing deficit in cyclical buffer (Table 4). In addition, other liquidity enhancing measures, not reported in the Programme, have been adopted in Finland. These include tax deferrals for corporate income taxes in 2020 (EUR 1.4 billion), financial investments in domestic corporate bond by the State Pension Fund (EUR 1 billion) as well as corporate investment programmes by Business Finland (EUR 0.15 billion) and TESI venture capital fund (EUR 0.15 billion).

Measures are being added progressively. The Parliament adopted the first supplementary budget on 26 March, amounting to about EUR 1.3 billion (0.6% of GDP) in additional appropriations for the years 2020-2022. The supplementary budget that entered into force on 31 March was composed of measures to support businesses as well as health and epidemic-related measures. On 16 April, the Parliament adopted a second supplementary budget. The latter extended the measures adopted under the first budget and included new ones, in particular to support the labour market, totalling EUR 4.1 billion (1.8% of GDP) over 2020-2022. The government adopted the third supplementary budget on 8 May 2020 and the fourth supplementary budget was announced for early June.

Overall, the measures taken by Finland are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak.[5] 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.

Most measures to support companies aim at supporting SMEs, providing them with subsidies and guarantees. The situation of self-employed is catered for, as well as of some other particularly affected sectors (farming, logistics, culture and youth, restaurants and bars). Reacting to the high interest from companies after the

[4] One of social security funds included in the general government.

[5] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0112.

announcement of the initial package of subsidies in mid-March, the amount of offered support has been increased significantly.

The initial take-up of the COVID-19-related subsidies for businesses has been high. According to the Ministry of Economic Affairs and Employment's update provided on 7 May 2020, by 5 May Business Finland has received over 24 thousand applications, of which it has processed 44%. Among the processed, it has approved 73%. Around EUR 0.3 billion have been granted to projects and around EUR 0.2 billion have been paid. The sectors receiving most funding were commerce, software and gaming, tourism and food services. Meanwhile, local economic development centres (so-called ELY Centres) have largely been supporting micro enterprises employing up to five people and have mainly issued grants to food services, retail trade and land transport. So far, the centres have received more than 23 thousand applications and handed down over 8 thousand decisions. The approval ratio was about 75%.

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**
Support for enterprises	Grants to enterprises provided by Business Finland and ELY Centers during disruptions, supporting the liquidity of self-employed people.	D3K	Adopted		0.5	-0.4
Extensions of unemployment security and social security	Removal of waiting period, speeding up of lay-off procedure and making entrepreneurs eligible for unemployment security, support for parents of small children and people arriving from other countries.	D62	Adopted		0.2	-0.2
Healthcare and social welfare resources and equipment purchases	Purchase of protective and other equipment and medicines through the National Emergency Supply Agency, vaccine research.	P2	Adopted		0.3	-0.3
Other expenditure increases arising from the coronavirus situation	Operating expenditure of various agencies, contingency for unanticipated expenditure, grants to various organisations.	P2, D1, P9	Adopted		0.2	-0.2
Lower of earnings-related pension contribution	Lowering of private-sector pension contributions for the period 1 May - 31 December 2020. The funding will come from the earnings-related pension system's EMU buffer. The buffer will be augmented again by increasing the earnings-related pension contribution for 2022-2025.	D61	Adopted		-0.5	0.4
				Total	**1.7**	**-1.5**

Source: Stability Programme

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

List of measures	Description	Adoption Status	Maximum amount of contingent liability (% of GDP)	
Finnvera	Increasing domestic financing guarantee authorisations from EUR 2 billion to EUR 12 billion, i.e. an increase of EUR 10 billion.	Adopted		4.4
Finnair	Maximum EUR 600 million government guarantee for TyEL pension premium loan	Adopted		0.3
Guarantee for freight traffic security of National Emergency Supply Agency	Government guarantee programme, with proposed maximum of EUR 600 million	Adopted		0.3
Employment Fund application	Application to guarantee a EUR 800 million credit line for financing cyclical buffer deficit	Announced		0.3
			Total	**5.2**

Source: Stability Programme

3.3. DEBT DEVELOPMENTS

After the period of fiscal consolidation followed by years of high economic growth, the Finnish public debt ratio stood at 59.4% of GDP. The 2020 Draft Budgetary Plan projected the public debt ratio to achieve 58.8% in 2019 and remain at the same level in 2020. However, the impact of the crisis on the economy and public finances is set to raise the debt ratio in 2020 by 10 percentage points. Apart from the COVID-19 measures that impact directly on the primary balance, some other measures taken by the government impact debt only, including the tax deferrals estimated at EUR 1.4 billion (0.6% of GDP)[6] and corporate investment programmes of EUR 0.3 billion (0.1% of GDP). Those measures are included in the stock-flow adjustments and contribute to increasing debt beyond the deficit. Amid the deep economic contraction, the impact of the growth effect on an increase of the public debt ratio is also set to be strong.

In 2021, the impact of the economic recovery is expected to stabilise the debt ratio. According to the Commission forecast, the debt ratio will increase marginally as the impact of the primary deficit and stock-flow adjustments is projected to offset the positive growth effect. The Programme forecasts a higher rise in the debt ratio in 2021, driven by the higher estimated government deficit and a more modest rate of economic growth.

Notwithstanding the increasing gross public debt, the Finnish government is expected to remain in positive net financial asset position. Finland has a large statutory

[6] The deferred tax liability, even if paid in subsequent years, should be recorded as revenue in 2020 in accrual terms. In that sense, the measure does not have a deficit-increasing effect in 2020. However, in cash terms, the absence of cash receipts will need to be funded, thus increasing the debt. This is accounted for through stock-flow adjustment.

earnings-related pension system, which is included in the general government sector and is partly pre-funded. Reflecting the assets of the pension funds, Finland's general government net financial assets amounted to 52% of GDP in 2018[7]. This ratio was second highest among the OECD countries as most other developed countries have large net liabilities.

Table 5: Debt developments

(% of GDP)	Average 2014-2018	2019	2020		2021		2022	2023
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**61.5**	**59.4**	**69.4**	**69.1**	**69.6**	**71.5**	**73.8**	**n.a.**
Change in the ratio	0.7	-0.3	10.1	9.7	0.2	2.4	2.3	n.a.
Contributions[2]:								
1. Primary balance	**0.7**	**0.3**	**6.6**	**6.5**	**2.8**	**3.4**	**3.5**	**n.a.**
2. "Snow-ball" effect	**-0.5**	**-0.7**	**3.6**	**3.5**	**-3.0**	**-1.5**	**n.a.**	**n.a.**
Of which:								
Interest expenditure	1.1	0.9	0.8	0.8	0.7	0.7	0.7	n.a.
Growth effect	-0.9	-0.6	3.9	3.4	-2.4	-0.9	n.a.	n.a.
Inflation effect	-0.7	-1.0	-1.1	-0.7	-1.2	-1.3	n.a.	n.a.
3. Stock-flow adjustment	**0.6**	**0.2**	**-0.2**	**-0.3**	**0.4**	**0.5**	**n.a.**	**n.a.**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

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 prior to the crisis. State guarantees have been granted in particular for the shipbuilding industry. A major triggering of liabilities, for example related from a crisis in the

[7] Statistics Finland (2019) General government financial accounts

touristic cruise ship sector, would increase public spending and further exacerbate the increase in the debt ratio.

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

4.1. Compliance with the deficit criterion

According to the Programme, Finland's general government deficit is expected to reach 7.2% 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 Finland 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 Finland'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 debt criterion

The debt benchmark is expected to be met in 2019, and not to be respected in 2020. According to the Commission forecast, Finland is projected to meet the debt benchmark in 2021.

4.3. Compliance with the MTO or the required adjustment path towards the MTO in 2019[8]

Assessment of requests for deviating from SGP requirements

In 2019, Finland benefitted from a temporary deviation of 0.5% of GDP from the required adjustment path towards the MTO, granted in 2017 for a period of three years to take account of major structural reforms with a positive impact on the long-term sustainability of public finances. In particular, Finland was granted a temporary deviation for reforms improving competitiveness launched by the Competitiveness Pact and a reform of the pension system. These reforms have been implemented.

Adjustment towards the MTO

The growth of nominal primary government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the applicable expenditure benchmark of 2.9% in 2019, leading to a deviation of 0.5% of GDP in the underlying fiscal position, thus pointing to some deviation from the recommended adjustment path towards the MTO in 2019, based on the Commission forecast.

[8] 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.

The structural balance is expected to deteriorate by 0.3 % of GDP in 2019, thus also pointing to some deviation in 2019, by 0.1% of GDP from the recommended structural adjustment corrected for flexibility clauses of -0.2% of GDP towards the MTO.

Based on the outturn data and the Commission forecast, the ex-post assessment suggests some deviation from the adjustment path towards the MTO in 2019.

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)	-1.7	-4.2		-1.6	
	Setting the required adjustment to the MTO					
(3)	Structural balance based on freezing (COM)	-1.0				
(4) = (1) - (3)	Position vis-a -vis the MTO[3]	Not at MTO				
(5)	Required adjustment[4]	0.3				
(6)	Required adjustment corrected[5]	-0.2				
(8)	Corresponding expenditure benchmark[6]	2.9				
	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]	-0.1				
	Two-year average deviation from the required adjustment[8]	0.0				
	Expenditure benchmark pillar					
(10)	Net public expenditure annual growth corrected for one-offs[9]	3.8				
(11) = (10) - (8)	One-year deviation adjusted for one-offs[10]	-0.5				
	Two-year deviation adjusted for one-offs[10]	-0.3				
	Finding of the overall assessment	**Some deviation**				
	Compliance with the debt criterion					
	Transition period					
	Required structural adjustment (MLSA)[11]					
	Structural adjustment[12]					
	After transition period					
	Gap to the debt benchmark [13,14]		3.3		-0.1	

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.