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Assessment of the 2020 Stability Programme for

Lithuania

(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.
- Both the 2020 Stability Programme and the Commission Spring 2020 forecast project Lithuania's GDP to decline by over 7 percent in 2020, while a rapid recovery is expected in 2021. After peaking in 2020 at about 10%, unemployment is projected to decline to approximately 8% in 2021. HICP inflation is projected to stay below the level of 2019.
- Due to the COVID-19 outbreak, the Commission projects the general government deficit to reach 6.9% of GDP in 2020 before receding to 2.7% in 2021. As the Stability Programme considers larger take-up of support measures and investment projects to mitigate the consequences of the virus outbreak, the deficit is anticipated to reach 11.4% of GDP in 2020 and then decline to 3.9% in 2021.
- Overall, the government measures aim to ensure sufficient funding of the healthcare sector to fight the COVID-19 virus, secure disposable income, support businesses liquidity and stimulate the economy. The reported size of the discretionary revenue and expenditure measures mounts to 1.1% and 5.7% of GDP, respectively. In addition, an increase of 2.9% of GDP in limits of state guarantees was adopted by the government.
- 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 Lithuania covering the period 2019-2021 (hereafter called the Programme), which was submitted on 30 April 2020[2]. The government approved the programme on 29 April and it was submitted to the Parliament on 15 May.

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.

Lithuania is among those Member States who 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

In 2019, Lithuania's real GDP grew by 3.9%. On the 20 March, the Ministry of Finance presented a macro scenario according to which GDP was expected to contract by 1.3% in 2020. The scenario was endorsed by Lithuania's Independent Fiscal Institution on 26 March[3]. However, this scenario immediately became less relevant as just before its publication, on 16 March, a general state of quarantine was declared until 30 March and later prolonged a couple of times until 31 May. The

[1] The Stability Programme submitted by Lithuania states that it also constitutes the national medium-term fiscal plan required under Article 4(1) of Regulation (EU) 473/2013.

[2] 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.

[3] Aukščiausioji audito institucija. 2020 m. kovo 26 d. Išvada dėl ekonominės raidos scenarijaus tvirtinimo Nr BPE-2. http://ifi.lt/isvada.aspx?id=10365

quarantine measures included a ban on public events, suspension of many economic activities, partial closure of borders, and in some cases also mobility restrictions within the country.

As a consequence of the COVID-19 pandemic, the Stability Programme presents two macro scenarios. According to the Scenario No 1, Lithuania's GDP is expected to contract by 2.8% in 2020 which is projected to be followed by strong growth reaching 5.4% in 2021. Scenario No 2 projects a GDP decline to reach 7.3% in 2020. It is expected to be driven almost equally by a drop in domestic demand and a negative contribution of net exports. For 2021, a strong rebound of 6.6% is forecast. Consequently, in 2021, the unemployment rate is projected to decline to 8.1% after reaching 10.5% in 2020. HICP inflation is projected to stand at 1% and 2% in 2020 and 2021, respectively.

On 15 May, Lithuania's Independent Fiscal Institution issued its opinion on Lithuania's 2020 Stability Programme[4]. The Independent Fiscal Institution assumed the second macro scenario as the main scenario. According to their estimates, the general government deficit is projected to reach 10.9% of GDP in 2020 and 4% of GDP in 2021.

Taking into account that discretionary measures, provided in the 2020 Stability Programme, are based on the second scenario, the assessment below is based on the second scenario as well. It's headline figures are broadly similar to that of the Commission Spring 2020 forecast. The Programme scenario assumes a negative contribution to growth of 3.2 percentage points from consumption and over 4 percentage point from net exports, while the Commission projects the largest negative contribution to growth to come from a decline in domestic demand with private consumption falling by 10%. The Commission projects smaller negative contribution from net exports.

Despite a rebound of 7.4% in 2021, the Commission expects GDP to remain below the volume of 2019. Due to a quick recovery of the Lithuanian economy, the unemployment rate is expected to stay below 10%. Inflation is forecast to drop below 2% in 2020 and 2021.

[4] Aukščiausioji audito institucija. 2020 m. gegužės 15 d. Lietuvos Stabilumo 2020 metų programos vertinimas Nr BPE-3. https://www.vkontrole.lt/bp/isvada.aspx?id=10372

Table 1: Comparison of macroeconomic developments and forecasts

	2019		2020		2021		2022	2023
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	3.9	3.9	-7.9	-7.3	7.4	6.6	n.a.	n.a.
Private consumption (% change)	3.2	3.2	-9.9	-3.7	7.8	3.1	n.a.	n.a.
Gross fixed capital formation (% change)	7.4	7.4	-5.0	-5.1	7.9	4.1	n.a.	n.a.
Exports of goods and services (% change)	9.3	9.3	-12.5	-15.0	13.5	13.7	n.a.	n.a.
Imports of goods and services (% change)	6.7	6.7	-12.0	-10.3	12.8	9.0	n.a.	n.a.
Contributions to real GDP growth:							n.a.	n.a.
- Final domestic demand	3.6	3.7	-6.9	-3.2	6.4	3.0	n.a.	n.a.
- Change in inventories	-1.8		0.0		0.0		n.a.	n.a.
- Net exports	2.1	2.1	-1.0	-4.2	1.0	3.6	n.a.	n.a.
Output gap[1]	4.6	4.2	-6.4	-6.3	-2.9	-3.5	n.a.	n.a.
Employment (% change)	0.5	0.3	-3.5	-4.5	2.0	2.3	n.a.	n.a.
Unemployment rate (%)	6.3	6.3	9.7	10.5	7.9	8.1	n.a.	n.a.
Labour productivity (% change)	3.4	3.6	-4.6	-2.9	5.3	4.2	n.a.	n.a.
HICP inflation (%)	2.2	2.2	0.8	1.0	1.5	2.0	n.a.	n.a.
GDP deflator (% change)	2.8	2.8	1.9	-0.2	2.7	2.0	n.a.	n.a.
Comp. of employees (per head, % change)	9.5	8.8	-8.2	-0.6	7.4	3.3	n.a.	n.a.
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	5.1	n.a.	4.2	n.a.	5.0	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 AND DEBT DEVELOPMENTS AND MEDIUM-TERM STRATEGY AND TARGETS[5]

In 2019, Lithuania's general government surplus stood at 0.3% of GDP, below the level of 2018. The outturn was slightly better-than-expected compared to the projected surplus of 0.1% in the 2020 Draft Budgetary Plan. This can be explained by the fact that some military equipment ordered in 2019, the value of which amounts to 0.6% of GDP, is expected to be delivered in coming years. Therefore, expenditure will be recorded at a later stage. On the other hand, spending on social benefits and wages in the public sector exceeded planned levels. Overall, the growth of primary

[5] 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.

government expenditure, net of discretionary revenue measures and one-offs, exceeded the recommended benchmark of 7.6%. Lithuania's fiscal stance was expansionary in 2019.

According to the 2020 Stability Programme, in 2020, the general government deficit is expected to reach 11.4% which is mainly determined by a considerable increase in spending and includes the impact of automatic stabilisers. The largest relative increases are projected in social benefits and subsidies. Overall, the discretionary expenditure measures amount to 5.7% of GDP. In 2021, based on a no-policy-change assumption, the government deficit is projected to decline to 3.9% of GDP.

According to the Commission forecast, the deficit is expected to stand at 6.9%. It is projected to be driven by both a decline in general government revenue and an increase in expenditure. However, the Commission projects a lower deficit than in the Programme, because the Lithuanian authorities have factored in larger amounts of state spending on measures to stimulate the economy and mitigate the consequences of the COVID-19 pandemic compared to the Commission estimations (see section 3.2). In addition, some other measures were adopted after the cut-off date of the Commission Spring 2020 forecast. In 2021, based on a no-policy-change assumption, the government deficit is projected to decline to 2.7% of GDP.

Lithuania's medium-term budgetary objective (MTO) for 2019-2021 is set at -1% of GDP. The MTO reflects the objectives of the Pact.

Lithuania's debt-to-GDP ratio increased from 33.6% of GDP in 2018 to 36.9% in 2019 as the country had to accumulate funds for bond redemptions due at the beginning of 2020. According to the 2020 Stability Programme, a headline deficit in 2020 is expected to drive the general government debt to 50.6% of GDP which is set to increase by 2 percentage points further in 2021. As the Commission forecast assumes lower deficit levels in both 2020 and 2021, the expected debt-to-GDP ratios are somewhat below the national projections.

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	**35.2**	**34.8**	**37.0**	**34.6**	**34.9**	**n.a.**	**n.a.**	**n.a.**
of which:								
- Taxes on production and imports	11.6	11.6	12.0	11.6	11.9	n.a.	n.a.	**n.a.**
- Current taxes on income, wealth, etc.	8.8	8.3	8.7	8.5	8.0	n.a.	n.a.	**n.a.**
- Social contributions	10.1	10.1	10.7	10.0	10.3	n.a.	n.a.	**n.a.**
- Other (residual)	4.8	4.8	5.6	4.6	4.7	n.a.	n.a.	**n.a.**
Expenditure	**34.9**	**41.8**	**48.4**	**37.4**	**38.8**	**n.a.**	**n.a.**	**n.a.**
of which:								
- Primary expenditure	34.1	41.2	47.7	36.8	38.3	n.a.	n.a.	**n.a.**
of which:								
Compensation of employees+Intermediate consumption	14.7	17.2	18.6	15.6	16.1	n.a.	n.a.	**n.a.**
Compensation of employees	10.3	11.8	12.1	10.6	11.0	n.a.	n.a.	**n.a.**
Intermediate consumption	4.4	5.4	6.5	4.9	5.1	n.a.	n.a.	**n.a.**
Social payments	14.0	17.4	18.4	15.7	15.9	n.a.	n.a.	**n.a.**
Subsidies	0.4	1.2	3.2	0.3	0.4	n.a.	n.a.	**n.a.**
Gross fixed capital formation	3.1	3.5	4.6	3.6	3.3	n.a.	n.a.	**n.a.**
Other (residual)	1.8	1.8	2.9	1.6	2.6	n.a.	n.a.	**n.a.**
- Interest expenditure	0.9	0.6	0.7	0.6	0.5	n.a.	n.a.	**n.a.**
General government balance (GGB)	**0.3**	**-6.9**	**-11.4**	**-2.7**	**-3.9**	**n.a.**	**n.a**	**n.a.**
Primary balance	**1.1**	**-6.4**	**-10.6**	**-2.2**	**-3.4**	**n.a.**	**n.a.**	**n.a.**
One-off and other temporary measures	0.1	0.0	0.0	0.0	0.0	n.a.	n.a	**n.a.**
GGB excl. one-offs	**0.2**	**-6.9**	**-11.4**	**-2.7**	**-3.9**	**n.a.**	**n.a.**	**n.a.**
Output gap[1]	4.6	-6.4	-6.3	-2.9	-3.5	n.a.	n.a	**n.a.**
Cyclically-adjusted balance[1]	-1.6	-4.4	-8.8	-1.6	-2.4	n.a.	n.a	**n.a.**
Structural balance[2]	**-1.6**	**-4.4**	**-8.8**	**-1.6**	**-2.4**	**n.a.**	**n.a.**	**n.a.**
Structural primary balance[2]	-0.7	-3.8	-8.1	-1.0	-1.9	n.a.	n.a.	**n.a.**
Gross debt ratio	**36.3**	**48.5**	**50.6**	**48.4**	**52.7**	**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

On 16 March, the government adopted the Plan for Economic Stimulus and Mitigation of Consequences of COVID-19 Transmission. The plan sets to provide additional funding for the healthcare sector, secure disposable income, support businesses liquidity and stimulate the economy. Overall, the measures taken by Lithuania are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak.[6] 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.

In addition, they are temporary and targeted. It should be noted that the measures were legislated separately without adopting an amended overall budget for 2020. Furthermore, additional measures were announced after the cut-off date of the Commission Spring 2020 forecast. The national authorities based their estimates of the discretionary revenue and expenditure measures following macro scenario No 2.

The 2020 Stability Programme presents a list of five discretionary revenue measures linked to the COVID-19 pandemic. In total, they amount to 1.1% of GDP and are deficit-increasing. Approximately half of this amount is tax revenue losses due to downtime announced by companies or because employees were on sick leave related to the COVID-19 virus. The other measures are tax revenue losses due to deferrals. As currently taxpayers whose activities were severely affected by the COVID-19 pandemic can postpone payments without any specific deadline due to high uncertainty, the national authorities chose to treat all deferred taxes as lost revenue. However, in its assessment, the Commission assumes much smaller revenue losses due to tax deferrals and does not define second-round effects, i.e. tax revenue losses due to downtime, as discretionary revenue measures.

On the expenditure side, the COVID-19 related measures in the Stability programme amount to 5.7% of GDP. Slightly less than half, i.e. 2.7% of GPD is allocated for subsidies targeted at saving jobs. These short-term subsidies were operationalised with some delay and they are not applicable to all employers, which might explain their limited uptake during one and a half months of the quarantine. Consequently, the Commission assumes smaller expenditure for helping businesses in retaining their employees. The same is valid for envisaged payments to the self-employed who lost their income due to the pandemic.

The 2020 Stability Programme also includes measures, exceeding 1% of GDP, linked to public investment which should support the economic recovery. Considering the time needed to implement investment projects and restrictions stemming from quarantine requirements, the Commission does not expect that these measures have a substantial impact on public finances and the real economy in 2020.

Overall, for 2020, the difference of 4.5 percentage points of deficit forecasts by the national authorities and the Commission can mainly be explained by more cautious estimates of the take-up of support for businesses and social benefits (2.9 percentage points) and spending linked to investment projects (approximately 1 percentage point), while a measure targeted at partially covering rental costs for companies (0.2 percentage points) was approved after the cut-off date of the Commission 2020 spring forecast.

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

In addition to the discretionary revenue and expenditure measures, the government also increased the limits of the state guarantees by 2.9% of GDP. One of the measures (No 2 in Table 4) amounting to 1.1% was not defined in detail. It should be noted that this type of measures does not have a direct impact on general government deficit.

Table 3: Discretionary measures adopted or 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
Revenue	Personal income tax (PIT) deferrals	D.5	Adopted		0.1	
Revenue	PIT losses due to downtime and sick leaves	D.5	Adopted		0.3	
Revenue	VAT deferrals	D.2	Adopted		0.2	
Revenue	Deferrals of social security contributions (SCC)	D.6	Adopted		0.2	0.1
Revenue	SCC losses due to downtime and sick leaves	D.6	Adopted		0.3	
Expenditure	Additional social benefits for employees directly affected by the COVID-19 and related sick leaves	D.6	Adopted		0.9	0.1
Expenditure	Fixed payments to the self-employed affected by the COVID-19	D.6	Adopted		0.2	
Expenditure	Subsidies for downtime	D.3	Adopted		2.5	
Expenditure	Salary supplement for medics	D.1	Adopted		0.1	
Expenditure	Other subsidies for downtime	D.3	Adopted		0.1	
Expenditure	Partial cover of rental costs	D.3	Adopted		0.2	
Expenditure	Construction of roads	P.51, D.1, P.2	Adopted		0.3	
Expenditure	Permit to use all funds of other funds (e.g. Climate Change Programme, etc.)	P.51, D.1, P.2	Adopted		0.4	
Expenditure	Subsidies to cinema industry, etc.	D.3	Adopted		0.0	
Expenditure	Additional funding for INVEGA	D.3	Adopted		0.0	
Expenditure	Wages for officers who are directly involved in managing COVID-19 situation	D.1	Adopted		0.0	
Expenditure	Medical equipment	P.2	Adopted		0.3	
Expenditure	COVID-19 related medical costs of non-residents	D.6	Adopted		0.0	
Expenditure	Additional funds to speed up public investment	P.51	Adopted		0.6	
				Total	**6.8**	**0.1**

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)	
1.	Increase in limits of state guarantees that are provided by INVEGA and Agricultural Credit Guarantee Fund	Adopted		1.1
2.	Provision of other state guarantees	Adopted		1.1
3.	INVEGA measures to support the liquidity of companies	Adopted		0.7
			Total	**2.9**

Source: Stability Programme

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. A slower-than-expected return to normal in Lithuania's main trade partners could lower the hopes for a V-shaped recovery.

Another risk, also mentioned in the 2020 Stability Programme, stems from an increase in limits of public guarantees to be issued in response to the crisis.

During the last four years, Lithuania placed considerable orders of military equipment totalling 1.6% of GDP. There is a degree of uncertainty regarding the exact delivery dates for these orders, which implies that envisaged general government balance might be negatively affected, especially in 2021.

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

4.1. Compliance with the deficit criterion

According to the Stability Programme, Lithuania's general government deficit is expected to reach 11.4% of GDP in 2020, thereby exceeding the reference value of 3% of GDP in the Treaty on the Functioning of the European Union (TFEU). This provides *prima facie* evidence of the existence of an excessive deficit in Lithuania for the purposes of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3) of the TFEU, which analyses Lithuania'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 MTO[7]

Lithuania is subject to the preventive arm of the Stability and Growth Pact and should ensure compliance with its MTO. For 2019, Lithuania benefitted from a temporary deviation of 0.5% of GDP from the MTO linked to the carry forward of the flexibility granted under the structural reform clause related to the implementation of so-call new social model.

[7] 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.

According to the 2020 Stability Programme, in 2019, Lithuania's structural balance stood at -1.4% of GDP. Therefore, the MTO of -1% of GDP was respected, taking into account the allowance linked to structural reforms of 0.5% of GDP.

Based on outturn data and Commission calculations, in 2019, Lithuania's structural deficit stood at 1.6% of GDP and was close to its MTO of -1.0% of GDP, taking into account the allowance linked to structural reforms of 0.5% of GDP in 2019.

The overall assessment points to compliance with the requirements of the Stability and Growth Pact in 2019 as Lithuania's structural balance is assessed to be close to the MTO, taking into account the allowance linked to structural reforms.

Table 5: Compliance with the requirements under the preventive arm

	(% of GDP)	2019	2020		2021	
	Background budgetary indicators[1]					
(1)	Medium-term objective (MTO)	-1.0	-1.0		-1.0	
(2)	Structural balance[2] (COM)	-1.6	-4.4		-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]	At or above the MTO				
(5)	Required adjustment[4]	0.0				
(6)	Required adjustment corrected[5]	-0.9				
(8)	Corresponding expenditure benchmark[6]	7.6				
	Compliance with the required adjustment to the MTO					
		COM	**COM**	**SP**	**COM**	**SP**
	Structural balance pillar					
(8) = Δ (2)	Change in structural balance[7]	-0.5				
(9) = (8) - (6)	*One-year deviation from the required adjustment*[8]	0.5				
	Two-year average deviation from the required adjustment[8]	0.6				
	Expenditure benchmark pillar					
(10)	Net public expenditure annual growth corrected for one-offs[9]	10.0				
(11) = (10) - (8)	One-year deviation adjusted for one-offs[10]	-0.7				
	Two-year deviation adjusted for one-offs[10]	-0.6				
	Finding of the overall assessment					

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