Part I

Public finances in EMU

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KEY FINDINGS

This part provides an overview of the economic and fiscal environment and presents the implementation of fiscal surveillance in 2018.

The EU economy is entering a period of less dynamic growth.

- According to the Commission 2018 autumn economic forecast, real growth in the euro area is forecast to ease from 2.4% in 2017 to below 2% in 2020, mainly due to less dynamic external demand.
- The key drivers of growth are set to become increasingly domestic: stronger wage growth, growing private consumption partly due to fiscal measures in some Member States and higher public investment in 2019.
- The balance of risks to the growth outlook is tilted to the downside as uncertainty from both domestic and external sources has risen significantly.

While fiscal positions are improving, fiscal buffers are limited and public debt ratios remain high in several Member States.

- The aggregate headline deficit is expected to decline further in the EU in 2018, thanks to positive cyclical conditions and lower interest expenditure rather than discretionary fiscal measures. However, in 2019 the aggregate budget deficit is projected to increase for the first time since 2009.
- The euro-area fiscal stance has been broadly neutral since 2015, but is expected to turn slightly expansionary in 2019. If each Member State adopted an appropriate stance based on the fiscal space they have available, the overall stance of the euro area would be broadly neutral to mildly restrictive in 2019.
- Public debt-to-GDP ratios should continue to decline benefitting from economic growth and historically low interest rates, but they remain close to historical peaks in several Member States.

The budgetary position and plans of some Member States warranted procedural steps under the SGP.

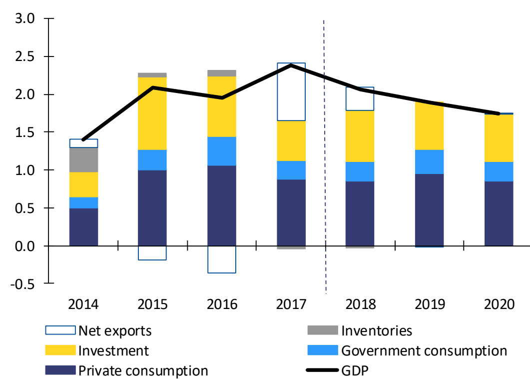
- In June 2018, the Council abrogated the excessive deficit procedure for France. Spain is thus the only remaining Member State currently in the corrective arm, with a deadline for correcting its excessive deficit in 2018.
- Significant deviation procedures under the preventive arm of the SGP were launched for Hungary and Romania in May 2018. The two Member States then received Council recommendations in December 2018, after the Council concluded that they had not taken effective action.
- In November 2018, the revised Draft Budgetary Plan of Italy was found to be in particularly serious non-compliance with the Council's recommendations. On that basis, the Commission re-assessed Italy's prima facie non-compliance with the debt criterion and concluded that, after consideration of all relevant factors, Italy did not comply with the debt criterion and a debt-based EDP was thus warranted. Following the dialogue between the Commission and the Italian authorities, the final 2019 budget law adopted by Parliament included additional measures, which allowed the Commission not to recommend the opening of a debt-based EDP at this stage.

1. ECONOMIC AND FISCAL ENVIRONMENT

1.1. ECONOMIC ACTIVITY

The EU economy is entering a period of less dynamic growth. In 2017, real GDP growth reached a 10-year high of 2.4% on average in the euro area and the European Union (EU), well above potential growth. All EU economies enjoyed a robust economic expansion. In 2018, the Commission 2018 autumn forecast expects real GDP to grow at a slower pace than in the previous year (2.1% on average in both the EU and the euro area). Economic activity in the EU and euro area should moderate further and grow by below 2% in 2019 and 2020.

Graph I.1.1: **Real GDP growth and its components, euro area**

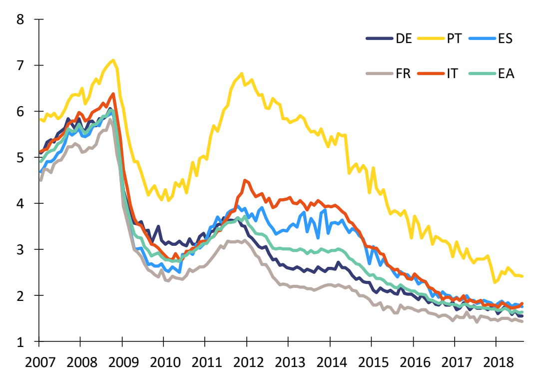


Source: Commission 2018 autumn forecast.

The drivers of growth are set to become increasingly domestic. In 2018, growth is mainly driven by domestic demand (Graph I.1.1). Private consumption should benefit from robust employment growth and higher wages as well as fiscal measures in some Member States. Investment, supported by financing conditions and high rates of capacity utilisation, is expected to provide a sizeable contribution to growth. By contrast, external demand slowed down significantly due to the weakening global economic activity and growing trade tensions. Looking further ahead, domestic demand should continue increasing at a solid pace in 2019 and 2020 thanks to the supportive policy mix in the euro area. At the same time, the expected slowdown in the external environment should lead to a lower contribution to growth from net exports.

The monetary policy of the ECB is expected to remain supportive of growth. The very accommodative monetary policy of the ECB has helped the recovery in lending volumes in the euro area (Graphs I.1.2 and I.1.3) and thus supported investment in recent years. The anticipated gradual monetary policy normalisation together with a positive output gap should put some upward pressure on nominal interest rates. Nonetheless, financing conditions in the euro area are expected to remain loose by historical standards. In particular, the high stock of assets purchased under the Expanded Asset Purchase Programme (EAPP) in the Eurosystem's balance sheet, in combination with the continued reinvestment of maturing securities, should ensure that nominal long-term rates stay overall low. As a result, bank lending is projected to rise in 2019 and 2020.

Graph I.1.2: **Interest rates on new loans to NFCs, selected Member States**



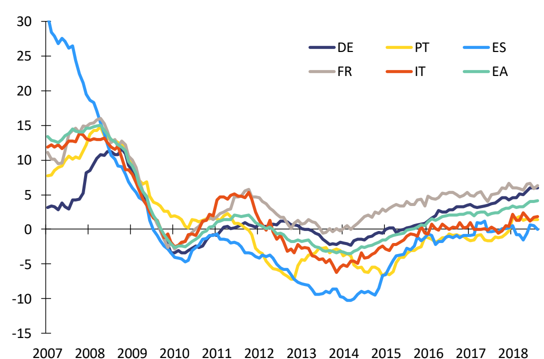
Source: European Central Bank.

Investment continues to benefit from the support provided by the Investment Plan for Europe ("Juncker Plan"). As of October 2018, operations approved under the Investment Plan for Europe (EUR 67.3 bn) were expected to trigger EUR 344 bn in investments, with around 793,000 small and medium-sized businesses benefitting from improved access to finance.

Unemployment is set to fall further, but at a slower pace than in the past. The increase in employment is expected to remain rather strong in 2018, before decelerating in 2019-2020 due to the slowdown in economic activity and the increase in labour shortages. In 2018, the unemployment rate is projected to fall to 6.9% in the EU and 8.4% in the euro area. A further decline in the

unemployment rate, although at a slower pace, is expected in the coming years reaching 7.5% in the euro area and 6.3% in the EU in 2020. Tighter labour market conditions should contribute to some acceleration in wages per employee (2.5% on average in the euro area in 2018-2020 from 1.6% in 2017), which would outpace inflation.

Graph I.1.3: **Growth of credit to NFCs, selected Member States (y-o-y % change)**



Source: European Central Bank.

Euro area inflation is projected to stay below 2%. In 2018, euro area headline inflation is expected to average 1.8% (from 1.5% in 2017), largely driven by higher energy and food prices. However, core inflation (excluding energy and unprocessed food) is projected to be significantly lower (1.2% from 1.1% in 2017). The Commission 2018 autumn forecast projects stable headline inflation in 2019 and some deceleration in 2020 (to 1.6%) mainly due to the energy price assumptions. Core inflation should instead gradually pick up and reach 1.5% in 2019 and 1.7% in 2020.

The large current account surplus of the euro area is forecast to decline only marginally. The current account surplus of the euro area stabilised at 3.2% of GDP in 2017 based on balance of payments data. It is projected to decline only marginally in 2018 on the back of worsening terms of trade mainly due to higher oil prices. A further small decline in the euro area current account surplus to 2.9% in 2020 is expected due to imports increasing more than exports.

The balance of risks to the growth outlook is tilted to the downside. Increasing uncertainties could weigh more heavily on economic growth. Uncertainties have increased since the start of the year and stem from both domestic and external sources. In terms of domestic factors, overly expansionary fiscal policies insufficiently addressing potential growth objectives could create doubts about fiscal sustainability in high debt countries. Such a risk reappraisal could cause sovereign-bank doom loops, raise financial stability concerns and hurt the real economy. As regards external factors, an overheating in the US fuelled by a pro-cyclical fiscal stance could result in a faster-than-assumed monetary tightening by the Fed. This development could alter the risk attitude of investors, resulting in negative spillovers to emerging and advanced economies. The deterioration of the current account in an overheating US economy could also lead to a further escalation of trade disputes. This could disrupt cross-border supply chains and negatively affect global trade and activity. A lower-than-forecast economic growth and possibly higher interest rates could also put pressure on public finances in some Member States.

1.2. GOVERNMENT BUDGET BALANCES

The aggregate budget deficit is about to fall below 1% of GDP in 2018 and then to broadly stabilise over the forecast horizon. According to the Commission 2018 autumn forecast, the aggregate government budget deficit is projected to decline in 2018 to 0.7% of GDP in the EU and 0.6% of GDP in the euro area (Table I.1.1). The forecast for 2019, which for euro-area Member States takes into account the measures announced in the Draft Budgetary Plans, points for the first time since 2009 to an increase of the aggregate budget deficit (to 0.8% of GDP in both the EU and the euro area). In 2020, the aggregate budget deficit should improve again to 0.7% of GDP based on a no-policy-change assumption.

The budgetary outlook shows a high degree of heterogeneity across Member States. Around half of Member States are expected to have a budget surplus over the 2018-2020 forecast period (Table I.1.1). At the same time, four EU Member States are set to continue displaying public deficits exceeding 2% of GDP based on a no-policy-change assumption. Among them, Romania is set to post a deficit above 3% in 2018 and 2019 and above 4% in 2020. Italy is expected to run a deficit close to 3% of GDP in 2019 and slightly above 3%

Table I.1.1: **Budget balances in EU Member States (% of GDP)**

	Budget balance					Structural balance					Structural primary balance				
	2016	2017	*2018*	*2019*	*2020*	2016	2017	*2018*	*2019*	*2020*	2016	2017	*2018*	*2019*	*2020*
BE	-2.4	-0.9	*-1.0*	*-1.1*	*-1.3*	-2.3	-1.4	*-1.3*	*-1.3*	*-1.7*	0.6	1.1	*1.0*	*0.9*	*0.4*
DE	0.9	1.0	*1.6*	*1.2*	*1.1*	0.7	0.8	*1.4*	*1.0*	*1.1*	1.9	1.8	*2.4*	*1.8*	*1.9*
EE	-0.3	-0.4	*0.5*	*0.5*	*0.2*	-0.7	-1.6	*-0.8*	*-0.7*	*-0.9*	-0.7	-1.5	*-0.8*	*-0.6*	*-0.8*
IE	-0.5	-0.2	*-0.1*	*-0.1*	*0.2*	-1.0	-0.2	*-0.2*	*-0.5*	*-0.3*	1.2	1.7	*1.4*	*0.9*	*1.0*
EL	0.5	0.8	*0.6*	*0.6*	*0.6*	5.1	4.6	*4.0*	*2.3*	*1.5*	8.3	7.7	*7.2*	*5.8*	*4.9*
ES	-4.5	-3.1	*-2.7*	*-2.1*	*-1.9*	-3.3	-2.9	*-3.1*	*-3.1*	*-3.1*	-0.5	-0.3	*-0.7*	*-0.8*	*-1.0*
FR	-3.5	-2.7	*-2.6*	*-2.8*	*-1.7*	-2.7	-2.4	*-2.5*	*-2.3*	*-2.2*	-0.8	-0.6	*-0.6*	*-0.4*	*-0.4*
IT	-2.5	-2.4	*-1.9*	*-2.9*	*-3.1*	-1.5	-1.8	*-1.8*	*-3.0*	*-3.5*	2.4	2.0	*1.8*	*0.9*	*0.4*
CY	0.3	1.8	*2.8*	*3.0*	*2.9*	1.3	1.5	*1.7*	*1.2*	*0.7*	4.1	4.1	*4.4*	*3.6*	*2.9*
LV	0.1	-0.6	*-0.8*	*-1.0*	*-0.7*	0.0	-1.2	*-1.8*	*-1.7*	*-1.2*	1.0	-0.3	*-1.0*	*-1.0*	*-0.5*
LT	0.3	0.5	*0.6*	*0.4*	*0.1*	-0.4	-0.7	*-0.6*	*-0.5*	*-0.4*	0.9	0.5	*0.4*	*0.4*	*0.3*
LU	1.6	1.4	*1.3*	*1.2*	*0.9*	1.4	1.6	*1.3*	*1.1*	*0.8*	1.8	1.9	*1.7*	*1.4*	*1.1*
MT	0.9	3.5	*1.3*	*1.2*	*0.7*	0.3	3.1	*0.9*	*0.9*	*0.9*	2.4	4.9	*2.5*	*2.4*	*2.2*
NL	0.0	1.2	*1.1*	*1.1*	*1.0*	0.5	0.7	*0.3*	*-0.3*	*-0.1*	1.6	1.7	*1.1*	*0.5*	*0.6*
AT	-1.6	-0.8	*-0.3*	*0.0*	*0.1*	-1.1	-0.8	*-0.8*	*-0.4*	*-0.2*	1.0	1.0	*0.8*	*1.0*	*1.3*
PT	-2.0	-3.0	*-0.7*	*-0.6*	*-0.2*	-2.1	-1.3	*-0.9*	*-0.9*	*-1.0*	2.1	2.5	*2.5*	*2.4*	*2.3*
SI	-1.9	0.1	*0.5*	*0.4*	*0.2*	-1.0	-0.4	*-0.8*	*-1.0*	*-1.0*	2.0	2.1	*1.2*	*0.7*	*0.6*
SK	-2.2	-0.8	*-0.6*	*-0.3*	*-0.1*	-2.1	-0.9	*-0.8*	*-0.8*	*-0.6*	-0.4	0.5	*0.4*	*0.3*	*0.5*
FI	-1.7	-0.7	*-0.8*	*-0.2*	*-0.1*	-0.5	-0.2	*-0.8*	*-0.6*	*-0.7*	0.5	0.8	*0.0*	*0.2*	*0.2*
EA19	-1.6	-1.0	*-0.6*	*-0.8*	*-0.7*	-1.0	-0.8	*-0.7*	*-1.0*	*-1.1*	1.1	1.1	*1.1*	*0.8*	*0.7*
BG	0.2	1.1	*0.8*	*0.6*	*0.6*	0.3	1.1	*0.7*	*0.4*	*0.3*	1.2	1.9	*1.4*	*1.1*	*0.9*
CZ	0.7	1.5	*1.4*	*0.8*	*0.7*	0.9	1.1	*0.9*	*0.2*	*0.2*	1.9	1.9	*1.7*	*1.0*	*1.0*
DK	-0.4	1.1	*0.2*	*-0.1*	*0.6*	0.1	1.2	*0.5*	*0.9*	*0.8*	1.5	2.3	*1.6*	*1.8*	*1.7*
HR	-0.9	0.9	*0.2*	*0.4*	*0.1*	-0.7	0.7	*-0.5*	*-0.7*	*-1.1*	2.3	3.3	*1.9*	*1.6*	*1.0*
HU	-1.6	-2.2	*-2.4*	*-1.9*	*-1.8*	-1.8	-3.4	*-3.8*	*-3.3*	*-3.0*	1.4	-0.7	*-1.3*	*-0.9*	*-0.6*
PL	-2.2	-1.4	*-0.9*	*-0.9*	*-1.0*	-1.9	-1.9	*-2.0*	*-2.0*	*-1.8*	-0.2	-0.3	*-0.5*	*-0.5*	*-0.4*
RO	-2.9	-2.9	*-3.3*	*-3.4*	*-4.7*	-2.2	-3.4	*-3.3*	*-3.4*	*-4.6*	-0.7	-2.0	*-1.9*	*-2.0*	*-3.1*
SE	1.1	1.6	*1.1*	*0.9*	*0.8*	0.8	1.4	*0.9*	*0.9*	*1.0*	1.2	1.7	*1.2*	*1.2*	*1.3*
UK	-2.9	-1.8	*-1.3*	*-1.0*	*-1.0*	-3.4	-2.3	*-1.8*	*-1.3*	*-1.1*	-0.9	0.4	*0.7*	*1.1*	*1.2*
EU28	-1.7	-1.0	*-0.7*	*-0.8*	*-0.7*	-1.3	-1.0	*-0.9*	*-1.0*	*-1.1*	0.8	1.0	*1.0*	*0.8*	*0.7*

Note: The structural budget balance is calculated on the basis of the commonly agreed production function method (see European Commission, 2004). Forecast values are shown in italics.
Source: Commission 2018 autumn forecast.

in 2020. A deficit above 2% of GDP is expected in Spain and France in 2018 and 2019.

Table I.1.2: **Breakdown of the general government budget balance, euro area (% of GDP)**

	2015	2016	2017	*2018*	*2019*	*2020*
Total revenue (1)	46.2	46.0	46.1	*46.0*	*45.7*	*45.5*
Total expenditure (2)	48.3	47.5	47.0	*46.7*	*46.5*	*46.1*
Actual balance (3) = (1) - (2)	-2.0	-1.6	-1.0	*-0.6*	*-0.8*	*-0.7*
Interest (4)	2.3	2.1	2.0	*1.9*	*1.8*	*1.8*
Primary balance (5) = (3) + (4)	0.3	0.6	1.0	*1.2*	*1.0*	*1.1*
One-offs (6)	-0.2	0.1	-0.1	*-0.1*	*-0.2*	*0.0*
Cyclically adjusted balance (7)	-1.0	-1.0	-0.9	*-0.8*	*-1.2*	*-1.1*
Cyclically adj. prim. balance = (7) + (4)	1.3	1.2	1.1	*1.0*	*0.6*	*0.7*
Structural budget balance = (7) - (6)	-0.9	-1.0	-0.8	*-0.7*	*-1.0*	*-1.1*
Structural primary balance = (7) - (6) + (4)	1.5	1.1	1.1	*1.1*	*0.8*	*0.7*
Change in actual balance:		0.5	0.6	*0.3*	*-0.2*	*0.2*
- Cycle		0.4	0.5	*0.3*	*0.2*	*0.1*
- Interest (reverse sign)		0.2	0.2	*0.1*	*0.0*	*0.0*
- One-offs		0.2	-0.1	*0.0*	*-0.1*	*0.2*
- Structural primary balance		-0.4	0.0	*0.0*	*-0.3*	*-0.1*
Change in cycl. adj. primary balance		-0.1	-0.1	*-0.1*	*-0.4*	*0.1*
Change in structural budget balance		-0.2	0.2	*0.1*	*-0.3*	*-0.1*

Note: Forecast values are shown in italics.
Source: Commission's autumn 2018 forecast.

Improved cyclical conditions and lower interest expenditure support public finances. The change in the cyclical component is expected to remain the key driver of the reduced budget deficit of the euro area over the forecast horizon (Table I.1.2). In 2018, a positive contribution should also come from falling interest expenditure. At the same time, the discretionary effort, as measured by the change in the structural primary balance, is projected to have an adverse impact on the budget in 2019 and 2020.

1.3. FISCAL STANCE OF THE EURO AREA

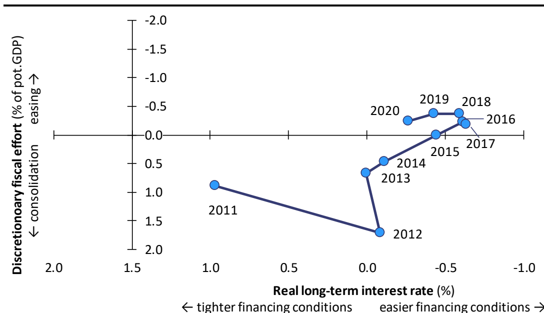
The fiscal stance of the euro area has been broadly neutral since 2015, but is expected to turn slightly expansionary in 2019 when cyclical conditions are projected to remain favourable. ([1]) The fiscal stance in the euro area, as measured by the change in the structural balance, has been broadly neutral since 2015. In 2019, the fiscal stance is expected to turn slightly expansionary.

A differentiated approach to national fiscal policies in line with the country-specific and

([1]) Usually, the fiscal stance refers to the orientation of fiscal policy, which can be qualified as expansionary, restrictive or neutral. In this Section, a neutral stance is one where government discretionary decisions, essentially the growth of (primary) spending and the new tax measures, neither support nor drag on the private economy compared with a steady state path.

euro area recommendations from 2018 is thus needed in order to balance the objectives of stabilising the economy and ensuring the long-term sustainability of public finances. National fiscal policy should ensure the sustainability of public finances by reducing debt ratios where they are high and build up fiscal buffers. Increasing public investment and other growth-enhancing spending should be a priority for countries with fiscal space, also taking into account spillovers across Member States. Overall, such a differentiation in Member States' fiscal stance according to their fiscal space would be consistent with delivering a broadly neutral to mildly restrictive fiscal stance for the euro area as a whole in 2019, contributing to a balanced policy mix in the euro area. Member States should also improve the quality and composition of public finances, also by making use of spending reviews, good public procurement practises, and adopting growth-friendly, efficient, simpler and fair tax structures.

Graph I.1.4: **Real long-term interest rate and discretionary fiscal effort, euro area**



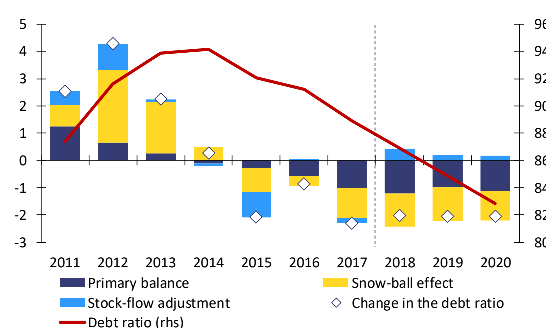
Note: Horizontal axis centered at +1.5, which is broadly in line with potential growth over the forecast horizon.
Source: Commission services.

The policy mix remains supportive for growth. The policy mix in the euro area reflects the interplay between financing conditions and fiscal policy (Graph I.1.4). For 2018, average real long-term rates (derived from the 10-year swap rate deflated by inflation expectations) are expected to be only slightly higher than in the previous year. They should increase further in 2019 and 2020 in the context of monetary policy normalisation, but would stay in negative territory. Thus, financing conditions should remain overall very supportive. At the same time, the fiscal policy stance is also expected to remain overall slightly supportive for growth in the euro area.

1.4. GOVERNMENT DEBT

General government debt ratios are decreasing in the EU and euro area on average, but remain high. The aggregate general government debt-to-GDP ratio of the euro area has been on a declining path since 2014 (Table I.1.3), when it reached a peak of 94.2% (88.1% in the EU). In 2017, the debt ratio fell to 88.9% (83.2% in the EU) and it is projected to fall further over the forecast period and reach 82.8% in 2020 (77.5% in the EU), under a no-policy-change assumption.

Graph I.1.5: **Key drivers of government debt developments, euro area (% of GDP)**



Source: Commission 2018 autumn forecast.

Robust economic growth and historically low interest rates support the decline in public debt ratios. The deleveraging of the government sector is supported by nominal GDP growth outpacing the low interest rates paid on debt, implying an adverse snowball effect. ([2]) Over the forecast period, the positive cyclical conditions should also help to maintain a primary surplus of around 1.1% of GDP on average for both the euro area and EU. Stock-flow adjustments are expected to provide a small debt-increasing contribution (Graph I.1.5).

Public debt ratios should decline further, but remain close to historical peaks in several Member States. Over 2018-2020, the debt-to-GDP ratio is projected to increase only in Romania, due to a large primary deficit. The debt

([2]) The snowball effect is the impact on the debt-to-GDP ratio provided by the difference between nominal growth and the implicit interest rates paid on debt. Specifically, in the euro area aggregate, nominal GDP growth is projected to average 3.6% over 2018-2020 and thus outpace the average interest rate paid on debt, which is set at 2.2%. As a result, the snowball effect is expected to help reduce the debt ratio in the euro area aggregate by around 1.2 pps. of GDP per year on average over the forecast period.

Table I.1.3: **Composition of changes in the government debt ratio in Member States (% of GDP)**

	Government debt ratio							Change in debt ratio	Change in the debt ratio in 2018-20 due to:		
	2014	2015	2016	2017	*2018*	*2019*	*2020*	2018-20	Primary balance	Snowball effect	Stock-flow adjustment
BE	107.6	106.5	106.1	103.4	*101.4*	*99.8*	*98.7*	-4.7	-3.3	-3.5	2.1
DE	74.5	70.8	67.9	63.9	*60.1*	*56.7*	*53.7*	-10.2	-6.4	-3.7	0.0
EE	10.5	9.9	9.2	8.7	*8.0*	*7.6*	*7.5*	-1.3	-1.3	-1.4	1.4
IE	104.1	76.8	73.4	68.4	*63.9*	*61.1*	*56.0*	-12.4	-4.4	-8.9	0.9
EL	178.9	175.9	178.5	176.1	*182.5*	*174.9*	*167.4*	-8.7	-12.0	-5.6	8.9
ES	100.4	99.3	99.0	98.1	*96.9*	*96.2*	*95.4*	-2.7	-0.1	-3.9	1.3
FR	94.9	95.6	98.2	98.5	*98.7*	*98.5*	*97.2*	-1.3	1.6	-2.9	0.1
IT	131.8	131.6	131.4	131.2	*131.1*	*131.0*	*131.1*	-0.1	-3.5	1.6	1.8
CY	108.0	108.0	105.5	96.1	*105.0*	*98.4*	*91.0*	-5.1	-16.1	-7.4	18.5
LV	40.9	36.8	40.3	40.0	*37.1*	*35.5*	*35.7*	-4.3	0.3	-4.6	0.0
LT	40.5	42.6	39.9	39.4	*34.8*	*37.9*	*37.6*	-1.8	-3.6	-4.1	5.9
LU	22.7	22.2	20.7	23.0	*21.4*	*20.8*	*20.6*	-2.4	-4.4	-2.0	4.1
MT	63.7	58.6	56.3	50.9	*47.9*	*44.8*	*42.1*	-8.8	-7.5	-5.2	3.9
NL	67.9	64.6	61.9	57.0	*53.2*	*49.6*	*46.9*	-10.1	-5.4	-4.7	0.0
AT	84.0	84.8	83.0	78.3	*74.5*	*71.0*	*67.8*	-10.5	-4.3	-4.0	-2.1
PT	130.6	128.8	129.2	124.8	*121.5*	*119.2*	*116.8*	-8.0	-8.4	-2.1	2.5
SI	80.4	82.6	78.7	74.1	*70.2*	*66.3*	*62.6*	-11.5	-6.3	-6.9	1.7
SK	53.5	52.2	51.8	50.9	*48.8*	*46.4*	*44.2*	-6.7	-2.5	-5.5	1.2
FI	60.2	63.6	63.0	61.3	*59.8*	*58.5*	*57.5*	-3.8	-1.5	-4.1	1.8
EA19	94.2	92.1	91.2	88.9	*86.9*	*84.9*	*82.8*	-6.1	-3.4	-3.5	0.8
BG	27.1	26.2	29.6	25.6	*23.3*	*21.3*	*19.5*	-6.1	-4.0	-2.1	0.0
CZ	42.2	40.0	36.8	34.7	*33.2*	*32.1*	*31.2*	-3.5	-5.1	-2.4	4.0
DK	44.3	39.9	37.9	36.1	*33.3*	*32.2*	*30.5*	-5.5	-3.5	-0.2	-1.8
HR	84.0	83.7	80.2	77.5	*73.5*	*70.1*	*68.2*	-9.3	-7.5	-2.9	1.2
HU	76.6	76.6	75.9	73.3	*72.9*	*70.3*	*68.6*	-4.6	-1.2	-6.6	3.2
PL	50.4	51.3	54.2	50.6	*49.2*	*48.3*	*47.4*	-3.1	-1.6	-4.1	2.5
RO	39.2	37.8	37.3	35.1	*35.1*	*35.9*	*38.2*	3.1	7.0	-3.9	0.0
SE	45.5	44.2	42.4	40.8	*37.8*	*35.5*	*33.5*	-7.4	-3.7	-3.6	0.0
UK	87.0	87.9	87.9	87.4	*86.0*	*84.5*	*82.6*	-4.7	-3.9	-0.5	-0.3
EU28	88.1	86.0	84.9	83.2	*81.4*	*79.5*	*77.5*	-5.6	-3.3	-3.0	0.6

Note: Differences between the sum and the total of individual items are due to rounding. Forecast values are shown in italics.
Source: Commission 2018 autumn forecast.

ratio is forecast to stabilise in Italy, the only country where the snowball effect is projected to provide a debt-increasing contribution. In 2020, the debt-to-GDP ratio is expected to remain above 100% in three Member States (Greece, Italy and Portugal), and above 90% in four others (Belgium, Spain, France and Cyprus).

It is key to rebuild fiscal buffer in high debt Member States now. Based on the Commission 2018 autumn forecast, there is no clear-cut relation between the expected fiscal effort and the level of debt-to-GDP ratios across Member States. In fact, the expected fiscal adjustment is relatively limited or even negative for some highly indebted Member States. More specifically, five euro-area Member States with high debt-to-GDP ratios (Belgium, Spain, France, Italy and Portugal) are forecast to have a sizeable structural deficit in 2019 and thus pending adjustment needs. Looking at the five largest euro area Member States, France and Spain are set to keep a broadly neutral fiscal, while Germany and the Netherlands are expected to use part of their fiscal space to support potential growth. A loose fiscal stance is projected in Italy.

1.5. COMPOSITION OF PUBLIC FINANCES

Over 2018-2020, the revenue and expenditure ratios are both set to decline at aggregate level in the EU and the euro area (Table I.1.4). In particular, the expenditure ratio of the euro area aggregate is projected to fall by 0.9 pp. of GDP (from 47.0% in 2017 to 46.1% in 2020). Part of the decline is explained by lower interest expenditure, which is forecast to fall from 2.0% of GDP in 2017 to 1.8% in 2020. As labour markets are set to improve, lower unemployment benefits will also contribute to the reduction in the expenditure ratio over the forecast period. The remainder of the fall in the expenditure ratio reflects the denominator impact from actual GDP growth above potential growth, thus entailing a dampening impact on the

Table I.1.4: **Government revenue and expenditure (% of GDP)**

	Revenue							Expenditure						
	2014	2015	2016	2017	2018	2019	2020	2014	2015	2016	2017	2018	2019	2020
BE	52.2	51.3	50.6	51.3	51.0	50.7	50.6	55.3	53.7	53.0	52.2	52.0	51.8	52.0
DE	44.5	44.5	44.8	45.0	45.3	45.1	45.0	44.0	43.7	43.9	43.9	43.8	43.9	44.0
EE	38.5	39.7	39.1	38.9	39.9	39.8	39.6	37.8	39.6	39.5	39.3	39.4	39.4	39.4
IE	33.8	27.0	27.0	26.0	25.0	24.6	24.2	37.4	28.9	27.5	26.3	25.1	24.7	24.0
EL	46.6	47.9	49.5	48.1	48.3	46.8	46.0	50.2	53.5	48.9	47.3	47.6	46.2	45.3
ES	38.9	38.5	37.7	37.9	38.4	38.8	38.8	44.8	43.7	42.2	41.0	41.1	40.9	40.8
FR	53.3	53.2	53.2	53.8	53.6	52.7	52.4	57.2	56.8	56.7	56.5	56.2	55.4	54.1
IT	47.9	47.7	46.5	46.4	46.2	45.9	45.5	50.9	50.3	49.1	48.7	48.1	48.8	48.6
CY	39.8	39.3	38.3	39.3	40.0	40.1	39.7	48.8	40.6	38.0	37.5	37.2	37.0	36.8
LV	36.6	36.9	37.0	37.2	36.8	36.4	36.4	38.1	38.2	37.0	37.8	37.7	37.3	37.1
LT	34.0	34.6	34.4	33.6	34.9	35.3	35.1	34.6	34.9	34.1	33.1	34.3	34.9	35.0
LU	43.3	43.3	43.6	44.5	44.8	45.0	45.2	42.0	42.0	41.9	43.1	43.5	43.8	44.4
MT	39.5	39.1	38.0	39.7	39.0	38.6	38.6	41.3	40.1	37.1	36.2	37.7	37.5	37.9
NL	43.6	42.6	43.6	43.7	43.4	43.4	43.3	45.7	44.6	43.6	42.5	42.4	42.3	42.3
AT	49.7	50.1	48.7	48.4	48.3	48.0	47.8	52.4	51.1	50.3	49.2	48.7	48.0	47.6
PT	44.6	43.8	42.8	42.7	43.3	43.3	43.4	51.8	48.2	44.8	45.7	44.0	43.9	43.7
SI	44.4	44.9	43.4	43.2	42.7	42.2	41.3	49.9	47.7	45.3	43.2	42.2	41.8	41.1
SK	39.3	42.5	39.2	39.4	39.3	38.9	38.6	42.0	45.1	41.5	40.2	39.9	39.3	38.7
FI	54.9	54.4	54.2	53.3	52.2	51.9	51.3	58.1	57.1	55.9	54.0	52.9	52.1	51.4
EA19	46.7	46.2	46.0	46.1	46.0	45.7	45.5	49.1	48.3	47.5	47.0	46.7	46.5	46.1
BG	37.7	38.8	35.3	36.2	37.0	38.3	38.2	43.1	40.5	35.1	35.1	36.1	37.7	37.6
CZ	40.3	41.1	40.2	40.5	41.8	41.5	41.3	42.4	41.7	39.5	39.0	40.4	40.8	40.7
DK	56.4	53.3	53.2	53.0	52.1	52.0	51.8	55.2	54.8	53.6	51.9	51.9	52.1	51.2
HR	42.9	44.8	46.0	45.8	45.1	44.4	43.9	48.1	48.3	46.9	45.0	44.9	44.1	43.8
HU	46.9	48.2	45.1	44.7	44.9	44.7	44.5	49.5	50.1	46.8	46.9	47.3	46.6	46.3
PL	38.7	39.0	38.9	39.7	40.7	41.0	41.2	42.4	41.7	41.1	41.1	41.6	41.9	42.2
RO	34.2	35.5	31.9	30.7	31.8	31.8	31.7	35.4	36.2	34.9	33.6	35.1	35.1	36.3
SE	49.5	49.8	50.8	50.9	50.2	49.9	49.6	51.1	49.6	49.7	49.3	49.1	48.9	48.8
UK	37.6	38.0	38.5	39.1	39.2	39.3	39.3	43.0	42.2	41.4	40.9	40.5	40.4	40.3
EU28	45.0	44.6	44.6	44.8	44.8	44.6	44.4	47.9	46.9	46.3	45.8	45.5	45.4	45.1

Note: The structural budget balance is calculated on the basis of the commonly agreed production function method (Havik et al., 2014).
Source: Commission 2018 autumn forecast.

expenditure-to-GDP ratio. (3) Looking at the revenue ratio of the euro area aggregate, it is projected to decline by 0.6 pp. of GDP over the forecast period (from 46.1% in 2017 to 45.5% in 2020), mainly reflecting the projected fall in social contributions. The reduction in the revenue-to-GDP ratio is largely explained by the impact of governments' discretionary measures, while underlying revenue developments appears to be in line with the projected increase in nominal GDP. (4)

The euro area aggregate reflects differentiated developments in expenditure and revenue ratios across Member States. More specifically, over 2018-2020 the expenditure ratio is projected to decline in twelve euro area Member States, to increase in three (Lithuania, Luxembourg and Malta) and to stay broadly stable in other three (Germany, Estonia and the Netherlands). In Italy, the expenditure ratio is expected to decline in 2018, but to increase again in 2019 due to the expansionary budget. Regarding the revenue ratio, in 2018-2020 it is projected to decline in the all but six euro-area Member States (DE, EE, ES, CY, LT, LU and PT).

The aggregate public investment-to-GDP ratio is projected to increase slightly. In the euro area, public investment should increase from 2.6% of GDP in 2017 to 2.8% in 2020, but remain below its pre-crisis average (3.2% of GDP over 2000-2007). By 2020, the fall in public investment relative to the pre-crisis period would remain sizeable in Spain and Portugal (about -2 pps. of GDP), Ireland and Malta (about -1.5 pps.), Greece and Italy (about -1 pp.). Public investment should benefit from the implementation of the 2014-2020 programming period of EU funding, as well as from the Investment Plan for Europe. Positive cyclical developments are set to reduce the weight of social transfers as a share of total general government expenditure in the euro area aggregate

(3) By comparison, when computed in terms of potential GDP, the primary expenditure ratio of the euro area is set to remain stable over 2017-2019 and to decline slightly in 2020.

(4) For further details on expenditure and revenues elasticities see Mourre et al. (2014).

by 2020, despite additional discretionary spending in some Member States. The weight of the wage bill on public expenditure is set to broadly stabilise.

The revenue ratio is expected to decline also in structural terms, while the projected fall in structural expenditure is small. Between 2017 and 2020, the projected decline in the structural revenue ratio of the euro area aggregate is 0.5 pp. of GDP, broadly in line with the 0.6 pp. decline in headline terms. This decline in the revenue ratio is largely explained by discretionary measures. In the same forecast period, the fall in the structural expenditure ratio would instead be more limited than the headline figure (-0.2 pp. of GDP vs. -0.9 pp.). It mainly reflects the impact of economic growth above potential growth on the headline figure, due to the denominator effect and lower cyclical unemployment benefits (see Box I.1.1 for an overview of national reporting on tax expenditures).

Box I.1.1: National reporting on tax expenditures and characteristics of regular reporting practices

Tax expenditures are reductions in government revenue through preferential tax treatment of specific groups of tax payers or specific economic activities. Member States make ample use of tax expenditures with a wide variety of aims including employment creation, innovation, education, entrepreneurship, home ownership and income distribution. While tax expenditures may be motivated by relevant economic or social goals, they are not necessarily the most cost-efficient instrument and may in some cases lead to severe economic impact and distortions. ([1])

The Commission and other international organisations ([2]) regularly emphasise the need to report on and review tax expenditures as part of national budget management given their implication on fiscal consolidation as well. In this line, governments should describe clearly the use of tax expenditures in their tax systems, and provide an explanation of the main policies in place. Doing so should include defining the benchmark situation (from which the tax expenditure is a deviation), the estimated cost of the measure in lost revenue and its coverage. In addition to reporting tax expenditures in the budget, governments should also carry out regular evaluations of the tax expenditures they apply. The evaluations may be conducted by independent bodies or commissions, if it is thought more appropriate, and should assess the efficiency and cost effectiveness of current tax expenditures. Member States may choose to carry out more extensive evaluations on a less frequent basis (i.e. less than once a year).

In this context, under the Directive 2011/85/EU, which lays down requirements for budgetary frameworks, Member States have been required since 1 January 2014 to publish detailed information on the effect of tax expenditures on revenue (Article 14(2)). However, the Directive does not specify a standardised procedure for evaluating tax expenditures.

The analysis presented in Table 1 provides an updated overview of the current reporting on tax expenditures in Member States. Table 1 shows in which Member States reporting on tax expenditures is conducted regularly, and gives further detail on the coverage of national reporting: the time period reported on and the categorisation of tax expenditures used. The information provided shows that currently 24 Member States regularly report on tax expenditures. Reporting practices, however, vary widely across countries, and therefore the reports produced also vary, in terms of their presentation, depth and coverage. Differences in reporting are moreover found in terms of the levels of government covered. While tax expenditures administered by central government are always covered, those related to local taxes and social security funds appear to be generally less well documented mainly due to the heterogeneity of the taxes applied (European Commission, 2015). Member States' reporting practices do, however, share some general common features:

a) Reporting is typically carried out on an annual basis, by the Ministry of Finance, the Ministry for the Economy or the tax authorities, or by services reporting to one of them. b) tax expenditures are most often identified in reference to their tax category or tax base c) expenditures are often grouped according to the type of tax measure (e.g. allowances, rate relief or exemptions), the purpose (e.g. supporting low-income earners or reducing the tax on certain types of housing) or the sector (e.g. households, businesses or agriculture).

However, the period covered and the categorisation ([3]) of tax expenditures used varies greatly. Similarly,

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([1]) Kalyva et al. (2014).
([2]) See, e.g., IMF (2011), OECD (2010) and European Commission (2015). For a more detailed discussion, see Bauger (2014).
([3]) ESA 2010 introduces explicit new rules on how tax credits are to be recorded in national accounts. It is a significant change from the method previously used under ESA 95. Tax credits that constitute non-contingent government liabilities are now treated as expenditure instead of as a reduction in tax revenue, and are recorded at the moment when a government recognises the obligation to pay. The new system of recording on a gross (rather than a net) basis leads to an increase in total revenue and in total expenditure, compared to the approach used in the past.

(Continued on the next page)

Box (continued)

some countries' reporting is backward-looking and others' forward-looking. d) the reports generally use the "revenue forgone" method for calculating tax expenditures, but there are significant differences in methodology (e.g. whether revenue is estimated on a cash or accruals basis). e) some Member States link tax expenditures to the expenditure side of the budget and the relevant reports are discussed in the Parliament (e.g. BE, DK, DE, GR, ES, FR, AT, PT and FI).

Table 1: **National reporting on tax expenditures and characteristics of regular reporting practices**

Country	National reporting		Time coverage**	Categorisation
	regular*	non-regular (latest)		
BE	X		t-7, t-6, t-5, t-4, t-3, t-2	tax base, purpose
BG	X	2012	t-2	tax base, purpose/sector
CY	X		t	tax base
CZ		2015	t-6, t-5	tax base, purpose
DK	X	2018	t-1	tax base, purpose
DE	X	2009	t-2, t-1, t, t+1	tax base, type of tax measure, purpose, sector
EE	X		t, t+1	tax base, purpose
IE	X	2010	t-1, t	tax base, type of tax measure
EL	X		t-2	tax base, purpose, sector
ES	X		t, t+1	tax base, type of tax measure, expenditure category
FR	X	2011	t-1, t, t+1	tax base, type of tax measure, expenditure category
IT	X	2010/11	t+1, t+2, t+3	type of tax measure, purpose, sector
NL	X		t-5, t-4, t-3, t-2, t-1, t	tax base, type of tax measure, purpose
AT	X		t-2, t-1, t, t+1	tax base, sector
PT	X		t+1	tax base, purpose
SK	X		t-2, t-1, t, t+1, t+2, t+3	tax base
FI	X	2016	t-1, t, t+1	tax base, purpose
LV	X		t-3, t-2, t-1	tax base, purpose
LU	X		t	type of tax measure
LT	X		t+1	tax base
RO	X		t-1, t, t+1, t+2	tax base
HU	X		t+1	tax base
PL	X		t-3	tax base, purpose
SE	X		t-1, t, t+1, t+2	tax base, type of tax measure, purpose/sector
UK	X		t-4, t-3, t-2, t-1, t	tax base, type of tax measure

Notes: The information reported here refers to the most recent editions of the national tax expenditure reports. * Regular reporting generally refers to an annual frequency, with the exceptions of Germany (where the update happens every two years) and Denmark (where not all tax expenditures are updated annually, but only the new ones and the changes to the existing ones). ** Year t denotes the year of publication.
Source: Commission services based on national sources.

Finally, some Member States have also recently produced one-off tax expenditure reviews or inventories. Those reports are generally more extensive, produced in some cases by independent experts (e.g. in Denmark, Ireland Finland, and UK) and may include reviews of or opinions on specific tax expenditure items.

Overall, information on the tax expenditures in force or planned in Member States is still often incomplete, and the data provided are not fully comparable across countries and over time. This makes it more difficult to identify possible improvements to fiscal and tax arrangements, and can thus make fiscal policymaking less effective and efficient. This can, in turn, affect the strength of countries' national budgetary frameworks as – more or less hidden– losses of revenue may weaken the positive effect to be gained from new measures increasing transparency on the expenditure side. National provisions adopted to transpose Directive 2011/85/EU and the changes that entered into force under the current European System of Accounts (ESA 2010) have already improved budgetary transparency, which is expected to strengthen further by the rigorous implementation of those measures.

2. IMPLEMENTATION OF FISCAL SURVEILLANCE IN 2018

The EU fiscal framework, as laid down by the Stability and Growth Pact (SGP), aims at ensuring budgetary discipline through two main requirements. First, Member States are required to keep their general government deficit and debt positions below the reference values of 3% and 60% of GDP respectively, and to prompt their correction if those two criteria are temporarily not fulfilled. ([5])([6]) Second, they are required by the preventive arm of the SGP to achieve and maintain their medium-term budgetary objective (MTO), which corresponds to a cyclically-adjusted target for the budget balance, net of one-offs and certain temporary measures. ([7]) Country-specific MTOs are defined so as to secure the sustainability of public finances and allow the automatic stabilisers to operate without breaching the reference value for the deficit as defined in the Treaty.

([5]) Article 126 TFEU lays down the excessive deficit procedure, which is further specified in Regulation (EC) 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure", amended in 2005 and 2011, which represents the corrective arm of the SGP.

([6]) In particular, a Member State is not compliant with the debt criterion if its general government gross debt is greater than 60% of GDP, and it is not sufficiently diminishing and approaching 60% of GDP at a satisfactory pace. The concept of "sufficiently diminishing" and "satisfactory pace" is crucial in the assessment of compliance with the debt criterion for Member States whose general government gross debt is greater than 60% of GDP. Those requirements are specified in Regulation 1467/97 as being fulfilled if "the differential [of the general government gross debt] with respect to the reference value has decreased over the previous three years at an average one twentieth per year as a benchmark". The Regulation provides that "the requirement under the debt criterion shall also be considered to be fulfilled if the budgetary forecasts of the Commission indicate that the required reduction in the differential will occur over the three-year period encompassing the two years following the final year for which data are available". It further indicates that "the influence of the cycle on the pace of debt reduction" should be taken into account. However, the opening an EDP on that basis is not automatic, as the Commission has to take into account a long list of relevant factors detailed in Article 2(3) in Regulation (EC) No 1467/97.

([7]) The preventive arm of the SGP is contained in Regulation (EC) 1466/97 "on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies", which was amended in 2005 and 2011. Together with the procedure for the avoidance of excessive government deficit laid down in Article 126 TFEU, further specified in Regulation (EC) 1467/97, in Regulation (EU) No 1175/2011, Council Regulation (EU) No 1177/2011 and Regulation (EU) No 1173/2011 on the effective enforcement of budgetary surveillance in the euro area, form the SGP.

This Chapter summarises the main developments in the implementation of fiscal surveillance in the EU in 2018. It first presents the key developments and procedural steps taken in the excessive deficit procedure of the corrective arm of the SGP (Section I.2.1.) and in the significant deviation procedure of the preventive arm (Section I.2.2.). It then provides and overview of the 2018 country-specific recommendations in the area of fiscal policy (Section I.2.3.), before presenting the Commission's assessment of the euro-area Member States' Draft Budgetary Plans for 2019 (Section I.2.4.).

2.1. EXCESSIVE DEFICIT PROCEDURE

This Section focuses on the implementation of the excessive deficit procedure (EDP) in 2018. The EDP ensures that Member States correct their excessive deficit and debt positions, measured against the reference values of 3% and 60% of GDP, thus operationalising the requirements set in the Treaty. The country-specific developments are summarised in Tables I.A.1, I.A.2 and I.A.3 in the Annex. ([8])

2.1.1. Euro-area Member States

In 2018, the Commission adopted reports in accordance with Article 126(3) TFEU for Belgium and Italy.

In the case of Italy, the Commission report of May 2018 concluded that the debt criterion should be considered as complied with. According to notified data of the Commission 2018 spring forecast, Italy's gross government debt stood at 131.8% of GDP in 2017, well above the 60% Treaty reference value, and Italy did not comply with the debt reduction benchmark in either 2016 or 2017. Moreover, Italy's debt-to-GDP ratio was projected to remain above the debt reduction benchmark in both 2018 and 2019. After examining all relevant factors, namely (i) the improving macroeconomic conditions, no longer explaining Italy's large gaps with the debt reduction benchmark; (ii) the ex-post compliance with the required adjustment towards the MTO in

([8]) All the country-specific developments regarding the excessive deficit procedure can be followed up at European Commission's website.

2017; and (iii) some progress in adopting and implementing growth-enhancing structural reforms, the Commission report of 23 May 2018 concluded that the debt criterion as defined in the Treaty should be considered as currently complied with. However, the Commission noted that the structural effort in 2018 appeared inadequate to ensure compliance with the required adjustment path towards the MTO in 2018 and that it would reassess compliance on the basis of ex-post data for 2018 to be notified in spring 2019.

As Italy's fiscal plans for 2019 represented a material change in the relevant factors analysed in the report of May 2018, the Commission issued a new report in November 2018, concluding that the debt criterion should be considered as not complied with, and that a debt-based EDP was thus warranted. The Commission considered that Italy's fiscal plans for 2019 (Section I.2.4.) represented a material change in the relevant factors analysed by the Commission in May 2018. In particular, in its 2019 revised Draft Budgetary Plan (DBP) Italy plans a large deterioration of the structural balance for 2019, in the order of 0.9% of GDP, while the Council had recommended an improvement by at least 0.6% of GDP. [9] On 21 November 2018, the Commission adopted its opinion on Italy's revised DBP confirming the risk of significant deviation from the adjustment path towards the MTO recommended by the Council for 2018 and the particularly serious non-compliance with the fiscal recommendation for 2019 based on both the government plans and the Commission 2018 autumn forecast. In light of this conclusion, the Commission considered that a new assessment of Italy's prima facie lack of compliance with the debt criterion in 2017 was justified. Consequently, the Commission issued a report in accordance with Article 126(3) TFEU on 21 November 2018, which took into account all relevant factors and notably (i) the fact that macroeconomic conditions, despite recently intensified downside risks, cannot explain Italy's large gaps to compliance with the debt reduction benchmark, given nominal GDP growth above 2% since 2016; (ii) the fact that the government plans imply a backtracking on past growth-enhancing structural reforms, in particular the past pension reforms; and above all (iii) the identified risk of significant deviation from the recommended adjustment path towards the MTO in 2018 and the particularly serious non-compliance for 2019 with the Council recommendation. Overall, the Commission concluded that the debt criterion should be considered as not complied with, and that a debt-based EDP was thus warranted. The Commission’s assessment was confirmed by Economic and Financial Committee on 29 November 2018. The Eurogroup on 3 December 2018 also supported the assessment and called on Italy to take the necessary measures to ensure compliance with the SGP. Following the dialogue between the Commission and the Italian authorities, the final 2019 budget law adopted by Parliament included additional measures, which allowed the Commission not to recommend the opening of a debt-based EDP at this stage. The Commission noted in its letter of 19 December 2018 that it would continue to monitor budgetary developments in Italy, and in particular the execution of the 2019 budget, in the context of the European Semester.

In the case of Belgium, the Commission report of May 2018 concluded that the current analysis was not fully conclusive as to whether the debt criterion was or was not complied with. According to notified data for 2017 and the Commission 2018 spring forecast, gross government debt stood at 103.1% of GDP in 2017, well above the 60% of GDP Treaty reference value and Belgium did not comply with the debt reduction benchmark in 2017. Moreover, Belgium was not projected to comply with the debt reduction benchmark in 2018 and 2019 according to the Commission 2018 spring forecast. The Commission examined all relevant factors, namely (i) the previously unfavourable but improving macroeconomic conditions, which makes them less of a factor to explain non-compliance with the debt reduction benchmark; (ii) the fact that there was not sufficiently robust evidence to conclude on the existence of a significant deviation in Belgium in 2017 and over 2016 and 2017 together; and (iii) the implementation of growth-enhancing structural reforms in recent years, several of which were

(9) The figures of the structural balance reported in this chapter refer to the cyclically-adjusted budget balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology. Italy submitted its 2019 Draft Budgetary Plan on 16 October 2018, and – following a negative Commission opinion – submitted a revised Draft Budgetary Plan on 13 November 2018, which confirmed the existence of a particularly serious non-compliance.

considered substantial and projected to help improve debt sustainability. Overall, as there was not sufficiently robust evidence to conclude on the existence of a significant deviation over 2016 and 2017 together given the high uncertainty as to the evolution of corporate income tax revenues stemming from a permanent change in the timing of recurrent revenue, the analysis in the report was not fully conclusive regarding (non-) compliance with the debt criterion. However, the report noted that the structural effort in 2018 appeared inadequate to ensure compliance with the required adjustment path towards the MTO in 2018 and that the Commission would reassess compliance on the basis of the ex-post data for 2018 to be notified in spring 2019.

As the EDP for France was abrogated in June 2018, Spain remains the only euro-area Member State in EDP. The EDP for France was abrogated on 22 June 2018 as the deficit had been brought below 3% of GDP in 2017 and it was projected to stay below 3% in 2018 and 2019. ([10]) The only euro-area Member State remaining in EDP is Spain, which was given a deadline to correct its excessive deficit by 2018. A decision on the abrogation of the EDP would be taken in spring 2019, based on 2018 outturn data. According to the Commission 2018 autumn forecast, the headline deficits in all euro-area Member States are projected to be below the 3% of GDP Treaty reference value in 2018.

2.1.2. Non-euro-area Member States

No EDPs were opened for non-euro area Member States in 2018. Government deficits in non-euro area Member States of the EU stayed below 3% of GDP in 2017. According to the Commission 2018 autumn forecast, public deficits are expected to remain below 3% of GDP in 2018 in all non-euro Member States with the exception of Romania, where the general government deficit is projected to reach 3.3% of GDP in (Section I.2.2.).

2.2. SIGNIFICANT DEVIATION PROCEDURE

In 2018, significant deviation procedures (SDPs) were launched for Hungary and Romania based on the observed deviation in 2017 (see Table I.A.4. in the Annex). In general, a SDP is launched if a Member States has deviated significantly from its MTO or the adjustment path towards it. If such a deviation is observed based on outturn data, the Commission must issue a warning and, within one month, the Council must address a recommendation towards the Member State to take measures to address the deviation. In 2018, such a procedure was launched for Romania and Hungary. With regard to Romania, the Council also concluded that the Member State did not take effective action to correct the observed significant deviation in 2016, which had triggered the first application of the SDP since its introduction into the EU economic governance framework.

In the case of Hungary, the Council adopted a recommendation in June 2018 with a view to correcting the significant observed deviation from the adjustment path towards the MTO. ([11]) Based on the Commission 2018 spring forecast and the 2017 outturn data, Hungary was found to have deviated significantly from the required adjustment path toward the MTO in 2017. As a consequence, the Council, following a recommendation by the Commission, adopted a recommendation on 22 June 2018 with a view to correcting the significant deviation. Hungary was recommended to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 2.8% in 2018, corresponding to an annual structural adjustment of 1% of GDP, and to use any windfall gains for deficit reduction, while budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner. On 18 and 19 September 2018, the Commission undertook an enhanced surveillance mission under Article 11(2) of Regulation (EC) No 1466/97. On 15 October 2018, in line with the deadline established by the Council, the Hungarian authorities submitted a report on action taken in response to the Council recommendation of 22 June 2018. Both the report on action taken and the findings in the mission report confirmed that the Hungarian authorities did not plan to act upon the Council recommendation.

In December 2018, the Council adopted a decision establishing that Hungary had not

([10]) OJ L 164, 29.6.2018, p. 44–45.

([11]) OJ C 223, 27.6.2018, p. 1–2.

taken effective action and a revised recommendation. Based on the Commission 2018 autumn forecast, Hungary is projected to deviate from the recommended adjustment for 2018 by a wide margin. Consequently, following a Commission recommendation, the Council adopted a decision on 4 December 2018 establishing that no effective action had been taken. In addition, it adopted a revised recommendation, which called on Hungary to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2019, corresponding to an annual structural adjustment of 1.0% of GDP. As recommended in June 2018, Hungary should also use any windfall gains for deficit reduction, and budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner. Finally, Hungary should report to the Council by 15 April 2019 on action taken in response to the recommendation.

In the case of Romania, the Council adopted a decision in June 2018, establishing that no effective action had been taken in response to the Council recommendation from December 2017. ([12]) After Romania had failed to deliver effective action in response to the Council recommendation from 16 June 2017, ([13]) the Council adopted a revised recommendation on 5 December 2017, which called on Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2018, corresponding to an annual structural adjustment of at least 0.8% of GDP in 2018. The Council also recommended to use any windfall gains for deficit reduction, while budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner. ([14]) Romania was asked to report to the Council by 15 April 2018 on action taken. On 10 and 11 April 2018, the Commission undertook an enhanced surveillance mission in Romania. The mission report concluded that the Romanian authorities did not intend to act upon the Council recommendation. On 20 April 2018, after the deadline established by the Council, the Romanian authorities submitted a report on action taken, in which the authorities reiterated that their target for 2018 remained the headline deficit of just below 3% of GDP. However, the fiscal impact of the reported measures fell significantly short what was required. As the overall assessment based on the Commission 2018 spring forecast confirmed a deviation from the recommended adjustment by a wide margin, the Council adopted a decision on 22 June 2018 that Romania had not taken effective action in response to the Council recommendation of 5 December 2017.

Following a recommendation by the Commission, the Council adopted a new recommendation for Romania in June 2018 with a view to correcting the significant observed deviation in 2017. ([15]) In 2017, based on the Commission 2018 spring forecast and the 2017 outturn data, Romania was found to have deviated significantly from the required adjustment path towards the MTO. Furthermore, the general government deficit was projected to reach 3.4% of GDP in 2018 and 3.8% of GDP in 2019, above the 3%-of-GDP Treaty reference value. The Council concluded that the failure to act upon earlier recommendations and the risk of exceeding the 3%-of-GDP Treaty reference value called for urgent action to put Romania's fiscal policy back on a prudent path. Therefore, Romania was recommended by the Council on 22 June 2018 to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2018 and 5.1% in 2019, corresponding to an annual structural adjustment of 0.8% of GDP in each year. In addition, Romania was recommended to use any windfall gains for deficit reduction; budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner. Finally, Romania should report to the Council by 15 October 2018 on action taken. On 27 and 28 September 2018, the Commission undertook an enhanced surveillance mission in Romania. The mission report found that the authorities did not intend to act upon the recommendation. On 16 October 2018, the Romanian authorities submitted a report on action taken. Overall, the fiscal impact of the reported measures fell short of the requirements.

([12]) OJ L 164, 29.6.2018, p. 42–43.
([13]) OJ C 216, 6.7.2017, p. 1–2.
([14]) OJ C 439, 20.12.2017, p. 1.
([15]) OJ C 223, 27.6.2018, p. 3–4.

In December 2018, the Council adopted a decision establishing that no effective action had been taken and a revised recommendation regarding Romania. Based on the Commission 2018 autumn forecast, the projected fiscal effort falls short of the requirements in both 2018 and 2019. Moreover, the Commission projects a general government deficit of 3.3% in 2018 and 3.4% in 2019, which is above the 3%-of-GDP Treaty reference value. Consequently, following a Commission recommendation, on 4 December 2018 the Council adopted a decision establishing that no effective action had been taken and a revised recommendation regarding Romania. The latter calls on Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 4.5% in 2019, corresponding to an annual structural adjustment of 1.0% of GDP, i.e. higher than the previously recommended adjustment, thereby putting the country on an appropriate adjustment path toward the MTO. As recommended in June 2018, Romania should use any windfall gains for deficit reduction and budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner. Finally, Romania should report to the Council by 15 April 2019 on action taken in response to the recommendation.

2.3. FISCAL COUNTRY-SPECIFIC RECOMMENDATIONS

According to the 2018 Stability and Convergence Programmes (SCPs) submitted in April 2018, all Member States planned to move closer to or remain at their MTOs by 2021. Of the 13 Member States that had reached their MTO in 2017 based on the Commission 2018 spring forecast, all would remain at or above their MTO, with eight of them planning a fiscal expansion over the programme horizon until 2021. The Member States not yet at their MTO planned some structural adjustment towards their MTO over the horizon. Overall, the planned adjustment effort was back-loaded, with several Member States planning a structural deterioration or a very limited improvement in 2018, followed by a fiscal tightening of around 0.3 pp. per year over the period 2019-2021. By 2021, 18 Member States planned to have reached their MTO, while another four would be in its vicinity (within a distance of 0.25% of GDP).

Based on the Member States' plans, the aggregate headline deficit would turn into a small surplus by the end of the programme horizon. At EU level, the headline balance would improve from -1.0% of GDP in 2017 to +0.2% of GDP in 2021, while for the euro area the balance would improve from -0.9% of GDP to +0.5% of GDP by the same time. The (recalculated) aggregate structural balance is expected to worsen by 0.1% of GDP in the EU and by 0.2% in the euro area in 2018. In 2019, the programmes point to an aggregate improvement of 0.3% of GDP, followed by a planned adjustment of 0.4% in 2020 and 0.3% in 2021. As a result, the structural balance would still show a small deficit in 2021 in the EU, while reaching a slight surplus of 0.1% of GDP for the euro area.

Based on the Commission forecast, risks to the Member States’ plans are expected to increase in 2019. While risks to the budgetary projections for 2018 seemed limited, the Member States plans for 2019 were significantly more favourable than the Commission forecast. The latter projected an aggregate headline deficit of 0.8% of GDP in the EU (0.6% of GDP in the euro area), 0.2 pp. (0.3 pp.) higher than the Member States’ plans. The difference is mostly explained by the assessment of the future budgetary measures ('policy gap').

In July 2018, based on the information provided in the 2018 SCPs (and in the National Reform Programmes), the Council adopted country-specific recommendations (CSRs) as part of the 2018 European Semester.

The Council first adopted on 23 March 2018 the recommendations for the euro area as a whole to allow the euro area dimension to be taken into account in the Member States' National Reform and Stability Programmes and CSRs. On 13 July 2018, the Council then adopted CSRs to 27 of the 28 Member States. Greece did not submit a Stability Programme and did not receive CSRs, as the surveillance took place in the context of its macroeconomic adjustment programme. ([16])

([16]) According to Article 12 of Regulation (EU) No 472/2013, where a Member State is subject to a macroeconomic

In the area of fiscal policy, the Council recommended Member States to comply with the requirements of the SGP. In particular, Member States in the preventive arm were recommended to achieve their MTO in 2019, taking into account flexibility for unusual events or structural reforms where applicable, or to ensure sufficient progress towards their MTO, with the recommendations providing guidance in terms of the maximum allowed nominal growth rate of net primary government expenditure and the corresponding adjustment in the structural balance. For Member States in EDP (Spain) or SDP (Hungary and Romania), the recommendations called for compliance with the respective Council decisions under these procedures. For those decisions that did not include a fiscal recommendation for 2019, the CSRs provided numerical guidance to ensure sufficient progress towards the MTO in 2019. In addition, Member States with large debt-to-GDP ratios were recommended to use windfall gains to accelerate the reduction of the general government debt ratio. In the area of fiscal-structural policies, some Member States were recommended to take measures to ensure the sustainability of the pension, healthcare, or long-term care systems. The Council recommended some Member States also to improve the efficiency and composition of public spending, and to improve tax collection, as well as to broaden the tax base towards more growth-friendly taxes. All CSRs in the fiscal area are reported in Table I.A.5.

2.4. DRAFT BUDGETARY PLANS

In October 2018, all euro-area Member States submitted their Draft Budgetary Plans for the budgetary year 2019 in due time, which were then assessed by the Commission. ([17]) That monitoring procedure was introduced by the Two-Pack with the aim of enhancing the surveillance and coordination of budgetary and economic policies within the euro area. In line with the provisions of the Two-Pack Code of Conduct, the outgoing governments of Latvia and Luxembourg submitted no-policy-change DBPs due to the holding of national elections in October 2018. The government of Slovenia, which took office on 13 September 2018, submitted a DBP without new policy measures for 2019, due to a delay in the budgetary process. Spain submitted its DBP without the concurrent submission of the draft budget act to the national parliament, even though that step is required by Article 4 of Regulation (EU) No. 473/2013. As the DBP did not give a complete picture of the planned measures, the Commission sent a letter to the Spanish authorities on 19 October 2018 inviting them to provide the missing data and additional information. The reply and the additional information was taken into account in the assessment of budgetary developments and risks. Following the completion on 20 August 2018 of the stability support programme by the European Stability Mechanism (ESM), Greece submitted for the first time a Draft Budgetary Plan.

The macroeconomic scenario underlying the DBPs suggests a mild slowdown in economic growth in the euro area. According to the DBPs, aggregate real GDP in the euro area is expected to grow by 2.1% in 2018 and 2.0% in 2019. The Commission 2018 autumn forecast expects a slightly more pronounced decline in GDP growth from 2.1% in 2018 to 1.9% in 2019. Despite the expected mild slowdown in economic growth, the aggregate euro area output gap is forecast to turn positive in 2018 and to widen in 2019, based on both the Commission forecast and the (recalculated) DBPs. Headline inflation is expected to move closer to the ECB's definition of price stability in 2018 and to remain broadly unchanged in 2019. The Commission expects headline inflation to reach 1.8% in 2018. In their DBPs, most Member States have increased their 2018 forecasts for headline inflation, giving rise to an aggregate euro area forecast of 1.7% (an increase of 0.3 pp. compared to the Stability Programmes). Both the DBPs and the Commission expect headline inflation to remain around the same level in 2019.

adjustment programme, it shall be exempt from the monitoring and assessment of the European Semester for economic policy coordination under Article 2-a of Regulation (EC) No 1466/97 for the duration of that programme.

([17]) Following a Commission decision on 11 July 2018 and the successful conclusion of the ESM stability support programme on 20 August 2018, Greece has been fully integrated into the European Semester framework and thus submitted in October 2018 for the first time a Draft Budgetary Plan.

The aggregate euro area headline deficit is expected to continue its recent declining trend in 2018 but to increase in 2019. The euro area headline deficit is expected to fall to 0.6% of GDP in 2018, according to both the Commission 2018 autumn forecast and the DBPs. For 2019, both the Commission forecast and the DBPs expect the deficit to widen to 0.8% of GDP, which would represent the first increase in the aggregate euro area headline deficit since 2009. The implementation of the DBPs would result in an expansionary fiscal stance for the euro area in 2019, as the structural balance is set to decline by 0.3pp. of potential GDP, compared to the envisaged improvement by 0.3pp. of potential GDP in the 2018 Stability Programmes. The deterioration is in particular driven by the fiscal expansion in Italy, while expansionary fiscal policies are also expected in Member States with fiscal space, notably Germany and the Netherlands. The euro area general government debt-to-GDP ratio, which has been on a declining path since 2014, is expected to fall to 84.9% in 2019 based on the Commission 2018 autumn forecast. The DBPs plan a similar reduction in the euro area aggregate debt-to-GDP ratio to 85.1% in 2019.

For some Member States (CY, HR, LU, SI and ES), the Commission's plausibility screening tool indicated that the estimated output gaps for 2018 based on the commonly-agreed methodology may be subject to a high degree of uncertainty. As Cyprus, Croatia and Luxembourg were expected to remain above their MTO, no further assessment has been carried out. For Slovenia and Spain, an assessment of the uncertainty surrounding the output gap estimates was already carried out in spring 2018, which indicated that the output gap estimate for 2019 based on the common methodology was subject to a high degree of uncertainty. On that basis, the required adjustment for those Member States for 2019 had already been reduced from 1% to 0.65% in the context of the Council recommendations of 13 July 2018. The autumn assessments confirmed the high degree of uncertainty in both cases.

The DBP of Italy was found to be in particularly serious non-compliance with the requirements of the SGP. The DBP submitted by Italy on 16 October 2018 planned an obvious significant deviation of the Council recommendations addressed to Italy under the SGP, which was considered a source of serious concerns. The Commission raised those concerns in a letter to the Italian government on 18 October 2018. First, the Commission noted that both the fact that the DBP planned a fiscal expansion of close to 1% of GDP, while the Council had recommended a fiscal adjustment of 0.6% of GDP, and the size of the deviation (a gap of around 1.5% of GDP) was unprecedented in the history of the SGP. Second, the Commission emphasised that while Italy's government debt stands around 130% of GDP, the DBP would not ensure compliance with the debt reduction benchmark. In that regard, the Commission referred to past reports under Article 126(3) TFEU, which considered broad compliance with the preventive arm of the SGP as a key relevant factor, and noted that the conclusions of the report from 23 May 2018 might have to be reviewed if such broad compliance can no longer be established. ([18]) The Commission also noted that those factors seem to point to a particularly serious non-compliance with the budgetary policy obligations as laid down in the SGP. Therefore, the Commission invited the Italian government to present its views on the matter by 22 October 2018, to be taken into account before coming to a final assessment of the DBP. In its letter of 22 October 2018, the Italian government recognised that the DBP did not fulfil the rules of the SGP as regards the structural adjustment debt reduction, provided further explanation on the budgetary plans, and addressed the non-endorsement of the macroeconomic forecast by the Parliamentary Budget Office.

In October 2018, the Commission adopted an opinion on Italy's DBP, concluding that the Commission had identified a particularly serious non-compliance with the Council recommendation from July 2018. ([19]) In accordance with Regulation (EU) No 473/2013, the Commission requested Italy to submit a revised DBP as soon as possible, and within three weeks at the latest. Italy submitted a revised DBP on

([18]) In its letter, the Commission also noted that the macroeconomic forecast underlying the budgetary plans had not been endorsed by an independent body, which appears not to respect the explicit provision of Regulation (EU) No 473/2013.

([19]) Council recommendation of 13 July 2018 on the 2018 National Reform Programme of Italy and delivering a Council opinion on the 2018 Stability Programme of Italy, OJ C 320, 10.09.2018, p. 48.

13 November 2018. Based on an assessment of the government plans in the revised 2019 DBP and on the Commission 2018 autumn forecast, the Commission confirmed the existence of a particularly serious non-compliance. Furthermore, the Commission noted that Italy's particularly serious non-compliance represents a material change in the relevant factors analysed by the Commission it its report of 23 May 2018 under Article 126(3) TFEU, which called for revisiting the Commission's assessment (Sub-section I.2.1.1).

While no other case of particularly serious non-compliance has been established, some DBPs also gave rise to concerns. In particular, the Commission sent letters to Belgium, France, Portugal, Slovenia and Spain on 19 October 2018 asking for further information and highlighted a number of preliminary observations related to their DBPs. The Member States concerned replied by 22 October 2018. The information contained in their letters was taken into account in the Commission's assessment of budgetary developments and risks. Overall, the assessments of the DBPs flagged different degrees of risk and requested, where needed, appropriate action by the Member States in order to ensure compliance with the SGP.

In order to facilitate comparison, the assessment of the plans that were not found to be in particularly serious non-compliance was summarised in three broad categories: (i) "compliant", (ii) "broadly compliant" and (iii) "at risk of non-compliance". For all Member States, the compliance assessments for 2019 are made against the requirements of the preventive arm and based on the Commission 2018 autumn forecast. The opinions of the Commission are presented in Table I.A.6.

Ten DBPs were found to be "compliant" with the requirements under the SGP. They were submitted by the following Member States under the preventive arm: Germany, Ireland, Greece, Cyprus, Lithuania, Luxembourg, Malta, the Netherlands, Austria, and Finland. For Austria and Finland, that finding is dependent on the projected achievement of the MTO, taking into account any allowance where relevant. If such a projection is not confirmed in future assessments, the overall assessment of compliance will need to take into account the extent of the deviation from the requirement set by the Council.

The DBPs of three Member States were found to be "broadly compliant" with the requirements under the SGP. They were Estonia, Latvia, and Slovakia. ([20]) For those Member States, the implementation of the plans might result in some deviation from their MTO, taking into account any allowances where relevant. If the structural balance is no longer projected to be close to the MTO in future assessments, the overall assessment of compliance will need to take into account the extent of the deviation from the requirement set by the Council.

Finally, the DBPs of five Member States were found to be "at risk of non-compliance" with the requirements under the SGP. Four of them are Member States currently under the preventive arm, namely Belgium, France, Portugal, and Slovenia. The DBP of Spain, which is currently under the corrective arm but could become subject to the preventive arm from 2019 onwards if it were to achieve a timely and sustainable correction of the excessive deficit, was also assessed against the preventive arm requirements for 2019. For all five Member States, the DBPs might result in a significant deviation from the adjustment paths towards their respective MTO. For Belgium, France, Portugal, and Spain, non-compliance with the (transitional) debt reduction benchmark is projected, and those Member States were invited to use windfall gains to accelerate the reduction of the government debt-to-GDP ratio.

([20]) For Slovakia, that assessment is based on the additional information about a planned reduction in government expenditure equivalent to 0.1% of GDP in 2019, which was publicly announced by the Slovak authorities and agreed by Slovakia's budgetary and financial committee on 20 November 2018.

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Table I.A.1: **Overview of EDP steps: Euro-area Member States**

Steps in EDP procedure	Treaty Art.	Member State																
		IE	FR	ES	LV	MT	LT	BE	DE	IT	NL	AT	PT	SI	SK	CY	FI	MT
Starting phase																		
Commission adopts EDP-report = start of the procedure	126(3)	18.02.2009	18.02.2009	18.02.2009	18.02.2009	13.05.2009	13.05.2009	07.10.2009	07.10.2009	07.10.2009	07.10.2009	07.10.2009	07.10.2009	07.10.2009	07.10.2009	12.05.2010	12.05.2010	21.05.2013
Economic and Financial Committee adopts opinion	126(4)	27.02.2009	27.02.2009	27.02.2009	27.02.2009	29.05.2009	29.05.2009	27.10.2009	27.10.2009	27.10.2009	27.10.2009	27.10.2009	27.10.2009	27.10.2009	27.10.2009	27.05.2010	27.05.2010	21.06.2013
Commission adopts:																		
opinion on existence of excessive deficit	126(5)																	
recommendation for Council decision on existence of excessive deficit	126(6)	24.03.2009	24.03.2009	24.03.2009	02.07.2009	24.06.2009	24.06.2009	11.11.2009	11.11.2009	11.11.2009	11.11.2009	11.11.2009	11.11.2009	11.11.2009	11.11.2009	15.06.2010	15.06.2010	29.05.2013
recommendation for Council recommendation to end this situation	126(7)																	
Council adopts:																		
decision on existence of excessive deficit	126(6)																	
recommendation to end this situation	126(7)	27.04.2009	27.04.2009	27.04.2009	07.07.2009	07.07.2009	07.07.2009	02.12.2009	02.12.2009	02.12.2009	02.12.2009	02.12.2009	02.12.2009	02.12.2009	02.12.2009	13.07.2010	13.07.2010	21.06.2013
deadline for correction of excessive deficit		***2013***	***2012***	***2012***	***2012***	***2010***	***2011***	***2012***	***2013***	***2012***	***2013***	***2013***	***2013***	***2013***	***2013***	***2012***	***2011***	***2014***
Follow-up																		
Commission adopts communication on action taken					27.01.2010			15.06.2010	15.06.2010	15.06.2010	15.06.2010	15.06.2010	15.06.2010	15.06.2010	15.06.2010	27.01.2011	27.01.2011	15.11.2013
Commission adopts recommendation for NEW Council recommendation to end situation of excessive deficit	126(7)	11.11.2009	11.11.2009	11.11.2009		27.01.2010	27.01.2010				29.05.2013		27.09.2012					
Council adopts recommendation for NEW Council recommendation to end situation of excessive deficit	126(7)	02.12.2009	02.12.2009	02.12.2009		16.02.2010	16.02.2010				21.06.2013		09.10.2012					
new deadline for correction of excessive deficit		***2014***	***2013***	***2013***		***2011***	***2012***				***2014***		***2014***					
Commission adopts communication on action taken		15.06.2010	15.06.2010	15.06.2010		06.01.2011	21.09.2010	11.01.2012			15.11.2013					11.01.2012		
Commission adopts recommendation for Council decision establishing inadequate action	126(8)							29.05.2013										
Council adopts decision establishing inadequate action	126(8)							21.06.2013										
Commission adopts recommendation for a Council decision to give notice	126(9)							29.05.2013										
Council adopts decision to give notice	126(9)							21.06.2013										
Commission adopts recommendation for NEW Council recommendation to end situation of excessive deficit	126(7)	03.12.2010	29.05.2013	06.07.2012									29.05.2013	29.05.2013		07.05.2013		
Council adopts recommendation for NEW Council recommendation to end situation of excessive deficit	126(7)	07.12.2010	21.06.2013	10.07.2012									21.06.2013	21.06.2013		16.05.2013		
new deadline for correction of excessive deficit		***2015***	***2015***	***2014***				***2013***					***2015***	***2015***		***2016***		
Commission adopts communication on action taken		24.08.2011	15.11.2013	14.11.2012				15.11.2013						15.11.2013		06.09.2013*		
Commission adopts recommendation for NEW Council recommendation to end situation of excessive deficit	126(7)		27.02.2015	29.05.2013														
Council adopts recommendation for NEW Council recommendation to end situation of excessive deficit	126(7)		10.03.2015	21.06.2013														
new deadline for correction of excessive deficit			***2017***	***2016***														
Commission adopts communication on action taken			01.07.2015	15.11.2013														
Commission adopts recommendation for Council decision establishing inadequate action	126(8)			07.07.2016									07.07.2016					
Council adopts decision establishing inadequate action	126(8)			12.07.2016									12.07.2016					
Commission adopts recommendation for Council implementing decision imposing a fine for failure to take effective action	126(8)			27.07.2016									27.07.2016					
Commission adopts recommendation for Council decision to give notice	126(9)			27.07.2016									27.07.2016					
Council adopts decision to give notice	126(9)			08.08.2016									08.08.2016					
new deadline for correction of excessive deficit				***2018***									***2016***					
Council adopts implementing decision on imposing a fine for failure to take effective action	126(8)			08.08.2016									08.08.2016					
Commission adopts communication on action taken				16.11.2016									16.11.2016					
Commission adopts proposal for Council opinion on Economic Partnership Programme													16.11.2016					
Abrogation																		
Commission adopts recommendation for Council decision abrogating existence of excessive deficit	126(12)	18.05.2016	23.05.2018		29.05.2013	14.11.2012	29.05.2013	02.06.2014	30.05.2012	29.05.2013	02.06.2014	02.06.2014	22.05.2017	18.05.2016	02.06.2014	18.05.2016	29.06.2011	12.05.2015
Council adopts decision abrogating existence of excessive deficit	126(12)	17.06.2016	22.06.2018		21.06.2013	04.12.2012	21.06.2013	20.06.2014	22.06.2012	21.06.2013	20.06.2014	20.06.2014	16.06.2017	17.06.2016	20.06.2014	17.06.2016	12.07.2011	19.06.2015

Notes: * In line with Regulation (EU) No 472/2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (Two-pack) the assessment of effective action is carried out in the context of the programme surve

Source: Commission services.

Table I.A.2: **Overview of EDP steps: non-euro-area Member States**

Steps in EDP procedure	Treaty Art.	Member State							
		HU	UK	PL	RO	CZ	BG	DK	HR
Starting phase									
Commission adopts EDP-report = start of the procedure	126(3)	12.05.2004	11.06.2008	13.05.2009	13.05.2009	07.10.2009	12.05.2010	12.05.2010	15.11.2013
Economic and Financial Committee adopts opinion	126(4)	24.05.2004	25.06.2008	29.05.2009	29.05.2009	27.10.2009	27.05.2010	27.05.2010	29.11.2013
Commission adopts:									
opinion on existence of excessive deficit	126(5)								
recommendation for Council decision on existence of excessive deficit	126(6)	24.06.2004	02.07.2008	24.06.2009	24.06.2009	11.11.2009	06.07.2010	15.06.2010	10.12.2013
recommendation for Council recommendation to end this situation	126(7)								
Council adopts:									
decision on existence of excessive deficit recommendation to end this situation	126(6) 126(7)	05.07.2004	08.07.2008	07.07.2009	07.07.2009	02.12.2009	13.07.2010	13.07.2010	21.01.2014
Deadline for correction of excessive deficit		***2008***	***fin. year 2009/10***	***2012***	***2011***	***2013***	***2011***	***2013***	***2016***
Follow-up									
Commission adopts communication on action taken				03.02.2010		15.06.2010	27.01.2011	27.01.2011	02.06.2014
Commission adopts recommendations for Council decision establishing inadequate action	126(8)	22.12.2004	24.03.2009						
Council adopts decision establishing inadequate action	126(8)	18.01.2005	27.04.2009						
Commission adopts recommendation for NEW Council recommendation to end excessive deficit situation	126(7)	16.02.2005	24.03.2009		08.02.2010				
Council adopts NEW recommendation to end excessive deficit situation	126(7)	08.03.2005	27.04.2009		16.02.2010				
New deadline for correction of excessive deficit		***2008***	***fin. year 2013/14***		***2012***				
Commission adopts communication on action taken		13.07.2005		11.01.2012	21.09.2010				
Commission adopts recommendations for Council decision establishing inadequate action	126(8)	20.10.2005							
Council adopts decision establishing inadequate action	126(8)	08.11.2005							
Commission adopts recommendation for NEW Council recommendation to end excessive deficit situation	126(7)	26.09.2006	11.11.2009						
Council adopts NEW recommendation to end excessive deficit situation	126(7)	10.10.2006	02.12.2009						
New deadline for correction of excessive deficit		***2009***	***fin. year 2014/15***						
Commission adopts communication on action taken		13.06.2007	06.07.2010						
Commission adopts recommendations for Council decision establishing inadequate action	126(8)		12.05.2015						
Council adopts decision establishing inadequate action	126(8)		19.06.2015						
Commission adopts recommendation for NEW Council recommendation to end excessive deficit situation	126(7)	24.06.2009	12.05.2015	29.05.2013					
Council adopts NEW recommendation to end excessive deficit situation	126(7)	07.07.2009	19.06.2015	21.06.2013					
New deadline for correction of excessive deficit		***2011***	***fin. year 2016/17***	***2014***					
Commission adopts communication on action taken		27.01.2010	16.11.2015						
Commission adopts recommendations for Council decision establishing inadequate action	126(8)	11.01.2012		15.11.2013					
Council adopts decision establishing inadequate action	126(8)	24.01.2012		10.12.2013					
Commission adopts recommendation for NEW Council recommendation to end excessive deficit situation	126(7)	06.03.2012		15.11.2013					
Council adopts NEW recommendation to end excessive deficit situation	126(7)	13.03.2012		10.12.2013					
New deadline for correction of excessive deficit		***2012***		***2015***					
Commission adopts communication on action taken		30.05.2012		02.06.2014					
Abrogation									
Commission adopts recommendation for Council decision abrogating existence of excessive deficit	126(12)	29.05.2013	22.11.2017	12.05.2015	29.05.2013	02.06.2014	30.05.2012	02.06.2014	22.05.2017
Council adopts decision abrogating existence of excessive deficit	126(12)	21.06.2013	04.12.2017	19.06.2015	21.06.2013	20.06.2014	22.06.2012	20.06.2014	16.06.2017

Source: Commission services.

Table I.A.3: **Overview of EDP steps: Greece**

Steps in EDP procedure	Treaty Art.	Greece
Starting phase		
Commission adopts EDP-report = start of the procedure	126(3)	18.02.2009
Economic and Financial Committee adopts opinion	126(4)	27.02.2009
Commission adopts:		
opinion on existence of excessive deficit	126(5)	
recommendation for Council decision on existence of excessive deficit	126(6)	24.03.2009
recommendation for Council recommendation to end this situation	126(7)	
Council adopts:		
decision on existence of excessive deficit	126(6)	27.04.2009
recommendation to end this situation	126(7)	
Deadline for correction of excessive deficit		***2010***
Follow-up		
Commission adopts recommendations for Council decision establishing inadequate action	126(8)	11.11.2009
Council adopts decision establishing inadequate action	126(8)	02.12.2009
Commission adopts Council recommendation for decision to give notice	126(9)	03.02.2010
Council decision to give notice	126(9)	16.02.2010
New deadline for correction of the excessive deficit		***2012***
Commission adopts communication on action taken		09.03.2010
Council adopts conclusions thereon		16.03.2010
Commission adopts recommendation for NEW Council decision to give notice	126(9)	04.05.2010
Council decision to give notice	126(9)	10.05.2010
New deadline for correction of the excessive deficit		***2014***
Follow-up - 1st review		
Commission adopts communication on action taken		19.08.2010
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	19.08.2010
Council decision amending the Council decision to give notice	126(9)	07.09.2010
Follow-up - 2nd review		
Commission adopts communication on action taken		09.12.2010
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	09.12.2010
Council decision amending the Council decision to give notice	126(9)	20.12.2010
Follow-up - 3rd review		
Commission adopts communication on action taken		24.02.2011
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	24.02.2011
Council decision amending the Council decision to give notice	126(9)	07.03.2011
Follow-up - 4th review		
Commission adopts communication on action taken		01.07.2011
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	05.07.2011
Council decision amending the Council decision to give notice	126(9)	12.07.2011
Follow-up - 5th review		
Commission adopts communication on action taken		26.10.2011
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	26.10.2011
Council decision amending the Council decision to give notice	126(9)	08.11.2011
Follow-up - Second Adjustment Programme		
Commission adopts communication on action taken		09.03.2012
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	09.03.2012
Council decision amending the Council decision to give notice	126(9)	13.03.2012
Follow-up - Second Adjustment Programme		
Commission adopts communication on action taken		30.11.2012
Commission adopts recommendation for Council decision amending the Council decision to give notice	126(9)	30.11.2012
Council decision amending the Council decision to give notice	126(9)	04.12.2012
New deadline for correction of the excessive deficit		***2016***
Follow-up - Third Adjustment Programme		
Council adopts decision to give notice	126(9)	20.08.2015
Abrogation		
Commission adopts recommendation for Council decision abrogating existence of excessive deficit	126(12)	12.07.2017
Council adopts decision abrogating existence of excessive deficit	126(12)	25.09.2017

Source: Commission services.

Table I.A.4: **Overview of SDP steps: Romania and Hungary**

Steps in SDP procedure	Treaty Art.	Romania	Romania (cont.)	Hungary
Starting phase				
Commission adopts:				
recommendation with a view to giving warning on the existence of a significant observed deviation	121(4)	22.05.2017	23.05.2018	23.05.2018
recommendation for Council recommendation with a view to correcting the significant observed deviation	121(4)	22.05.2017	23.05.2018	23.05.2018
Council adopts recommendation with a view to correcting the significant observed deviation	121(4)	16.06.2017	22.06.2018	22.06.2018
Deadline for report on action taken		***15.10.2017***	***15.10.2018***	***15.10.2018***
Follow-up				
Commission adopts:				
recommendation for Council decision on no effective action	121(4)	22.11.2017	21.11.2018	21.11.2018
recommendation for Council recommendation with a view to correcting the significant observed deviation	121(4)	22.11.2017	21.11.2018	21.11.2018
Council adopts:				
decision on no effective action	121(4)	05.12.2017	04.12.2018	04.12.2018
recommendation with a view to correcting the significant observed deviation	121(4)	05.12.2017	04.12.2018	04.12.2018
New deadline for report on action taken		***15.04.2018***	***15.04.2019***	***15.04.2019***
Commission adopts:				
recommendation for Council decision on no effective action	121(4)	23.05.2018		
Council adopts:				
decision on no effective action	121(4)	22.06.2018		

Source: Commission services.

Table I.A.5: **Overview of Council country-specific recommendations related to fiscal policy**

	Applicable provisions of the SGP (Spring 2018)	Other relevant information	CSR on SGP	CSR on fiscal framework	CSR on efficiency	CSR on taxation	CSR on pensions and health-care
BE	• Preventive arm • Debt benchmark	• MTO: 0% • Debt > 60%	Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.8 % in 2019, corresponding to an annual structural adjustment of 0.6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio.	Pursue the full implementation of the 2013 Cooperation Agreement to coordinate fiscal policies of all government levels.	Improve the efficiency and composition of public spending at all levels of government to create room for public investment, in particular by carrying out spending reviews.		Pursue the envisaged pension reforms and contain the projected increase in long-term care expenditure.
BG	Preventive arm	MTO: -1%			Upgrade the State owned enterprise corporate governance framework in line with international good practices.	Improve tax collection and the efficiency of public spending, including by stepping up enforcement of measures to reduce the extent of the informal economy.	In line with the National Health Strategy and its action plan, improve access to health services, including by reducing out-of-pocket payments and addressing shortages of health professionals. Introduce a regular and transparent revision scheme for the minimum income and improve its coverage and adequacy.
CZ	Preventive arm	MTO: -1%			Address weaknesses in public procurement practices, in particular by enabling more quality-based competition and by implementing anti-corruption measures.		Improve the long-term fiscal sustainability, in particular of the pension system.
DK	Preventive arm	MTO: -0.5%					
DE	• Preventive arm • Debt benchmark	• MTO: -0.5% • Debt > 60% and <60% as of 2019	While respecting the medium-term objective, use fiscal and structural policies to achieve a sustained upward trend in public and private investment, and in particular on education, research and innovation at all levels of government, in particular at regional and municipal levels.			Improve the efficiency and investment-friendliness of the tax system.	
EE	Preventive arm	MTO: -0.5%	Ensure that the nominal growth rate of net primary government expenditure does not exceed 4.1 % in 2019, corresponding to an annual structural adjustment of 0.6 % of GDP.				
IE	• Preventive arm • Transition period debt rule	• MTO: -0.5% • Debt > 60%	Achieve the medium-term budgetary objective in 2019. Use windfall gains to accelerate the reduction of the general government debt ratio.			Limit the scope and the number of tax expenditures, and broaden the tax base	Address the expected increase in age related expenditure by increasing the cost effectiveness of the healthcare system and by pursuing the envisaged pension reforms.
EL			To avoid duplication with measures set out in the Economic Adjustment Programme, there are no additional recommendations for Greece.				
ES	Corrective arm	EDP deadline: 2018	Ensure compliance with Council Decision (EU) 2017/984 giving notice under the excessive deficit procedure, including through measures to enforce the fiscal and public procurement frameworks at all levels of government. Thereafter, ensure that the nominal growth rate of net primary government expenditure does not exceed 0.6 % in 2019, corresponding to an annual structural adjustment of 0.65 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio.				
FR	• Preventive arm • Transition period debt rule	• MTO: -0.4% • Debt > 60%	Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.4 % in 2019, corresponding to an annual structural adjustment of 0.6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio.		Implement expenditure savings in 2018 and fully specify the objectives and new measures needed in the context of Public Action 2022, for them to translate into concrete expenditure savings and efficiency gains measures in the 2019 budget.	Simplify the tax system, by limiting the use of tax expenditures, removing inefficient taxes and reducing taxes on production levied on companies.	Progressively unify the rules of the different pension regimes to enhance their fairness and sustainability
HR	• Preventive arm • Debt benchmark	• MTO:-1.75% • Debt>60%		Strengthen the fiscal framework, including by strengthening the mandate and independence of the Fiscal Policy Commission	Improve corporate governance in state-owned enterprises and intensify the sale of state-owned enterprises and non-productive assets.	Introduce a recurrent property tax	Discourage early retirement, accelerate the transition to a higher statutory retirement age and align pension provisions for specific categories with the rules of the general scheme.
IT	• Preventive arm • Debt benchmark	• MTO: 0% • Debt >60%	Ensure that the nominal growth rate of net primary government expenditure does not exceed 0.1 % in 2019, corresponding to an annual structural adjustment of 0.6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio.		Ensure enforcement of the new framework for publicly-owned enterprises and increase the efficiency and quality of local public services	Shift taxation away from labour, including by reducing tax expenditure and reforming the outdated cadastral values	Reduce the share of old-age pensions in public spending to create space for other social spending.
CY	• Preventive arm • Transition period debt rule	• MTO: 0% • Debt >60%			Adopt key legislative reforms to improve efficiency in the public sector, in particular as regards the functioning of the public administration and the governance of state-owned entities and local governments.		Take measures to ensure that the National Health System becomes fully functional in 2020, as planned.

(Continued on the next page)

Table (continued)

LV	Preventive arm	MTO: -1%	Achieve the medium-term budgetary objective in 2019, taking into account the allowances linked to the implementation of the structural reforms for which a temporary deviation is granted		Strengthen the efficiency of the public sector, in particular with regard to local authorities and state-owned enterprises. Strengthen the accountability of public administration by protecting whistle-blowers, preventing conflicts of interest and following-up on the results of the ongoing assessment of past insolvency proceedings.	Reduce taxation for low-income earners by shifting it to other sources, particularly capital and property, and by improving tax compliance.	Increase the accessibility, quality and cost-effectiveness of the healthcare system.
LT	Preventive arm	MTO: -1%				Improve tax compliance and broaden the tax base to sources less detrimental to growth.	Ensure the long-term sustainability of the pension system while addressing the adequacy of pensions Improve the performance of the healthcare system by a further shift from hospital to outpatient care, strengthening disease prevention measures, including at local level, and increasing the quality and affordability of care.
LU	Preventive arm	MTO: -0.5%					
HU	• Preventive arm • Debt benchmark	• MTO: -1.5% • Debt > 60%	In 2018, ensure compliance with the Council recommendation of June 22 2018 with a view to correcting the significant deviation from the adjustment path toward the medium-term budgetary objective. In 2019, ensure that the nominal growth rate of net primary government expenditure does not exceed 3.9 %, corresponding to an annual structural adjustment of 0.75 % of GDP.			Continue simplifying the tax system, in particular by reducing sector-specific taxes	
MT	Preventive arm	MTO: 0%					Ensure the sustainability of the health care and the pension systems, including by increasing the statutory retirement age and by restricting early retirement
NL	Preventive arm	MTO:-0.5%	While respecting the medium-term objective, use fiscal and structural policies to raise public and private investment in research, development and innovation.				Ensure that the second pillar of the pension system is more transparent, inter-generationally fairer and more resilient to shocks.
AT	• Preventive arm • Debt benchmark	• MTO:-0.5% • Debt>60%	Achieve the medium-term budgetary objective in 2019, taking into account the allowance linked to unusual events for which a temporary deviation is granted.		Make public services more efficient, including through aligning financing and spending responsibilities.	Reduce the tax wedge, especially for low-income earners, by shifting the tax burden to sources of revenue less detrimental to growth.	Ensure the sustainability of the health and long-term care and the pension systems, including by increasing the statutory retirement age and by restricting early retirement.
PL	Preventive arm	MTO:-1%	Ensure that the nominal growth rate of net primary government expenditure does not exceed 4.2 % in 2019, corresponding to an annual structural adjustment of 0.6 % of GDP.		Take steps to improve the efficiency of public spending, including by improving the budgetary process.		Ensure the sustainability and adequacy of the pension system by taking measures to increase the effective retirement age and by reforming the preferential pension schemes.
PT	• Preventive arm • Transition period debt rule	• MTO: 0.25% • Debt >60%	Ensure that the nominal growth rate of net primary government expenditure does not exceed 0.7 % in 2019, corresponding to an annual structural adjustment of 0.6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio.		Strengthen expenditure control, cost effectiveness and adequate budgeting, in particular in the health sector with a focus on the reduction of arrears in hospitals		
RO	Preventive arm	MTO:-1%	Ensure compliance with the Council recommendation of June 18 2018 with a view to correcting the significant deviation from the adjustment path toward the medium-term budgetary objective.	Ensure the full application of the fiscal framework.	Improve the transparency and efficiency of public procurement. Strengthen the corporate governance of state-owned enterprises.	Strengthen tax compliance and collection.	Improve access to healthcare, including through the shift to outpatient care.
SI	• Preventive arm • Transition period of the debt rule	• MTO: 0.25% • Debt >60%	Ensure that the nominal growth rate of net primary government expenditure does not exceed 3.1 % in 2019, corresponding to an annual structural adjustment of 0.65 % of GDP.		Enhance competition, professionalisation and independent oversight in public procurement. Carry out the privatisations in line with to the existing plans.		Ensure the long-term sustainability and adequacy of the pension system, including by increasing the statutory retirement age and by restricting early retirement. Adopt and implement the healthcare and health insurance act and the planned reform of long-term care.
SK	Preventive arm	MTO:-0.5%	Ensure that the nominal growth rate of net primary government expenditure does not exceed 4.1 % in 2019, corresponding to an annual structural adjustment of 0.5 % of GDP.		Increase the use of quality-related and lifecycle cost criteria in public procurement operations.		Implement measures to increase the cost effectiveness of the healthcare system and develop a more effective healthcare workforce strategy.
FI	• Preventive arm • Debt benchmark	MTO:-0.5%	Achieve the medium-term budgetary objective in 2019, taking into account the allowances linked to the implementation of the structural reforms for which a temporary deviation is granted.		Ensure the adoption and implementation of the administrative reform to improve cost-effectiveness and equal access to social and healthcare services.		
SE	Preventive arm	MTO:-1%					
UK	• Preventive arm • Transition period of the debt rule	• MTO:-0.8% • Debt >60%	Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.6 % in 2019-2020, corresponding to an annual structural adjustment of 0.6 % of GDP.				

Note: Situation in spring as far as fiscal surveillance is concerned for 2018.
Source: Commission services.

Table I.A.6: **Overview of individual Commission opinions on the Draft Budgetary Plans**

Country	Overall compliance of the DBP with the SGP		Progress with implementing the fiscal-structural part of the 2018 country-specific recommendations
	Overall conclusion of compliance based on the Commission 2018 autumn forecast	**Compliance with the preventive/corrective arm requirements in 2018 and 2019**	
IT[(1)]	Particularly serious non-compliance	2018: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark; 2019: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark.	No progress
BE[(2)]	Risk of non-compliance	2018: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark; 2019: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark.	Limited progress
FR	Risk of non-compliance	2018: risk of some deviation from the adjustment path towards the MTO, prima facie non-compliance with the transitional debt reduction benchmark; 2019: risk of a significant deviation from the adjustment path towards the MTO based on 2018 and 2019 taken together, prima facie non-compliance with the transitional debt reduction benchmark.	Limited progress
PT	Risk of non-compliance	2018: risk of a significant deviation from the adjustment path towards the MTO, compliance with the transitional debt reduction benchmark; 2019: risk of a significant deviation from the adjustment path towards the MTO, non-compliance with the transitional debt reduction benchmark.	Limited progress
SI[(3)]	Risk of non-compliance	2018: risk of a significant deviation from the adjustment path towards the MTO, compliance with the transitional debt reduction benchmark; 2019: risk of a significant deviation from the adjustment path towards the MTO, compliance with the debt reduction benchmark.	Limited progress
ES[(4)]	Risk of non-compliance	2018: headline deficit projected below 3%, headline target not met, fiscal effort not delivered; 2019: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the transitional debt reduction benchmark.	Limited progress

(1) The Commission issued a report on 23 May 2018 in accordance with Article 126(3) TFEU in which it concluded that the debt criterion should be considered as currently complied with. Italy's particularly serious non-compliance identified by the Commission with the recommendation addressed to it by the Council on 13 July 2018 represents a material change in the relevant factors analysed by the Commission on 23 May 2018. The Commission revised its assessment on 21 November 2018 and concluded that the opening of a debt-based EDP is warranted. Following the dialogue between the Commission and the Italian authorities, the final 2019 budget law adopted by Parliament included additional measures, which allowed the Commission not to recommend the opening of a debt-based EDP at this stage.

(2) The Commission issued a report on 23 May 2018 in accordance with Article 126(3) TFEU in which it concluded that the analysis is not fully conclusive as to whether the debt criterion is or is not complied with.

(3) Draft Budgetary Plan submitted on a no-policy-change basis.

(4) Spain is currently under the corrective arm of the Stability and Growth Pact, but could move to the preventive arm as from 2019 if the excessive deficit is corrected in a timely and sustainable manner. Spain's Draft Budgetary Plan was submitted without the concurrent submission of a draft budget act to the national parliament.

(Continued on the next page)

Table (continued)

EE	Broadly compliant	2018: compliant with the adjustment path towards the MTO; 2019: close to the MTO while risk of significant deviation from the expenditure benchmark requirement.	n.r.
LV(3)	Broadly compliant	2018: close to the MTO while risk of significant deviation from the expenditure benchmark requirement; 2019: close to the MTO while risk of significant deviation from the expenditure benchmark requirement	Limited progress
SK	Broadly compliant	2018: risk of a significant deviation from the adjustment path towards the MTO; 2019: close to the MTO while risk of significant deviation from the expenditure benchmark requirement.	Some progress
DE	Compliant	2018: MTO respected, compliance with the debt reduction benchmark; 2019: MTO respected.	Some progress
IE	Compliant	2018: MTO respected while risk of significant deviation from the expenditure benchmark requirement based on 2017 and 2018 taken together, compliance with the transitional debt rule; 2019: MTO respected, compliance with the debt reduction benchmark.	Some progress
EL(1)	Compliant	2018: compliance with the transitional debt reduction benchmark; 2019: compliance with the transitional debt reduction benchmark.	n.r.
CY	Compliant	2018: MTO respected, compliance with the transitional debt reduction benchmark; 2019: MTO respected, compliance with the debt reduction benchmark.	No progress
LT	Compliant	2018: MTO respected; 2019: MTO respected.	Some progress
LU(3)	Compliant	2018: MTO respected; 2019: MTO respected.	Limited progress
MT	Compliant	2018: MTO respected; 2019: MTO respected.	No progress
NL	Compliant	2018: MTO respected; 2019: MTO respected.	Substantial progress
AT	Compliant	2018: MTO respected taking into account the allowances for which a temporary deviation is granted, while risk of significant deviation from the expenditure benchmark requirement, compliance with the debt reduction benchmark; 2019: MTO respected while risk of significant deviation from the expenditure benchmark requirement based on 2018 and 2019 taken together, compliance with the debt reduction benchmark.	Limited progress
FI	Compliant	2018: MTO respected taking into account the allowances for which a temporary deviation is granted; 2019: MTO respected taking into account the allowances for which a temporary deviation is granted, while risk of significant deviation from the expenditure benchmark requirement based on 2018 and 2019 taken together.	Limited progress

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

Source: Commission services.