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Assessment of the 2017 stability programme for

Cyprus

(Note prepared by DG ECFIN staff)

CONTENTS

1. INTRODUCTION

On 27 April 2017, Cyprus submitted its 2017 Stability Programme, covering the period 2017-2020. The Council of Ministers approved the programme on 26 April 2017, which forms the basis for the preparation of the 2018 annual budget.

Cyprus is currently subject to the preventive arm of the the Stability and Growth Pact (SGP) and should preserve a sound fiscal position which ensures compliance with the medium term objective. As the debt ratio was 107.5% of GDP in 2015 (the year in which Cyprus corrected its excessive deficit), exceeding the 60% of GDP reference value, Cyprus is also subject to the transitional arrangements regarding compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit (transitional debt rule). In this period it should ensure sufficient progress towards compliance. After the transition period, as of 2018, Cyprus is expected to comply with the debt reduction benchmark.

This document complements the Country Report published on 22 February 2017 and updates it with the information included in the stability programme. Section 2 presents the macroeconomic outlook underlying the stability programme and provides an assessment based on the Commission 2017 spring forecast. Section 3 describes the recent and planned budgetary developments, according to the stability programme. In particular, it includes an overview of the medium-term budgetary plans, an assessment of the measures underpinning the stability programme and a risk analysis of the budgetary plans based on the Commission forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission forecast. Section 5 provides an overview on long-term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework and the quality of public finances. Section 7 summarises the assessment.

2. MACROECONOMIC DEVELOPMENTS

The economy of Cyprus expanded by 2.8% in real terms in 2016. The macroeconomic scenario underlying the stability programme assumes real GDP growth at 2.9% in both 2017 and 2018 driven by private consumption and net exports and growth at 2.7% in both 2019 and 2020, mostly driven by private consumption, investment and exports.

Compared to the Draft Budgetary Plan for 2017, real GDP growth in 2017 has been revised slightly upwards (from 2.8% to 2.9% in 2017), mainly due to higher investment.

The Commission 2017 spring forecast projects a lower real GDP growth rate of 2.5% in 2017 and 2.3% in 2018. In 2017, apart from higher overall growth projections, the stability programme forecasts also a different composition of growth with a weaker investment performance and a related sharp deceleration in import growth. The latter leads to a contribution of net exports to growth of 1.2 pps in the stability programme, compared to 0.3 pps in the Commission 2017 spring forecast. For 2018, the main difference originates from the assumption on private consumption, investment and net exports, all projected more optimistically in the stability programme. As compared to the Commission forecast, the unemployment rate in the stability programme is expected to fall faster in 2017 and 2018 and growth of compensation per employee is more optimistic. The stability programme also projects higher GDP deflator, at 1.3% in 2017 and 1.0% in 2018, while the Commission projects the GDP deflator at 0.8% in 2017 and of 0.9% in 2018.

Table 1: Comparison of macroeconomic developments and forecasts

	2016		2017		2018		2019	2020
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	2.8	2.8	2.5	2.9	2.3	2.9	2.7	2.7
Private consumption (% change)	2.9	2.9	2.1	2.3	1.9	2.3	2.3	2.3
Gross fixed capital formation (% change)	25.9	25.9	3.4	0.2	4.9	6.5	5.2	5.2
Exports of goods and services (% change)	3.6	3.6	3.3	3.0	3.2	3.5	3.5	3.5
Imports of goods and services (% change)	5.3	5.3	2.9	1.0	3.2	3.2	3.2	3.2
Contributions to real GDP growth:								
- Final domestic demand	5.2	5.3	2.2	1.7	2.3	2.7	2.4	2.4
- Change in inventories	-1.4	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	-1.0	-1.0	0.3	1.2	0.0	0.2	0.3	0.2
Output gap[1]	-0.8	-1.1	0.8	0.3	2.0	1.4	1.9	2.3
Employment (% change)	2.7	2.7	2.3	2.2	1.9	2.0	1.7	1.7
Unemployment rate (%)	13.1	13.0	11.7	11.5	10.6	10.0	8.5	7.0
Labour productivity (% change)	0.1	0.1	0.1	0.7	0.3	0.9	1.0	1.0
HICP inflation (%)	-1.2	-1.2	1.2	1.1	1.1	1.0	1.5	2.0
GDP deflator (% change)	-1.3	-1.3	0.8	1.3	0.9	1.0	1.5	2.0
Comp. of employees (per head, % change)	-0.6	-0.6	0.7	1.3	1.1	1.7	2.1	2.4
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-5.2	-5.3	-5.3	-4.5	-5.8	-4.3	-4.1	-3.7

Note:

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

Source :

Commission 2017 spring forecast (COM); Stability Programme (SP).

The output gap, as recalculated by the Commission based on the information in the stability programme and according to the commonly agreed methodology (recalculated output gap), reaches 1.4% of potential output in 2018, as real GDP growth outpaces potential growth. The macroeconomic scenario underlying the stability programme estimates a higher output gap of 1.6% of potential output in 2018, due to differences in potential growth estimates. The Commission 2017 spring forecast envisages an output gap estimate of 2% of GDP in 2018 (from 0.8% in 2017). The difference in output gap estimates is explained by differences in the estimates of both actual growth (as explained above) and potential growth. The weak potential growth estimates using the commonly agreed methodology are due to the recent financial crisis and ensuing deep recession. Lower labour market participation, a higher structural unemployment rate and subdued investment are the factors that have brought potential growth to around 0% in previous years. Although there is some uncertainty surrounding the estimation of the level of the output gap for Cyprus, the Commission does not see sufficient ground to deviate from the output gap estimated on the basis of the commonly agreed methodology (box 2).

Overall, the stability programme presents plausible albeit optimistic macroeconomic assumptions until 2018, with the programme's macroeconomic outlook more favourable than the Commission 2017 spring forecast for both years, in particular for 2018. The risks associated with the macroeconomic assumptions presented in the stability programme are, hence, tilted to the downside, linked to the high stock of non-performing loans, constrained credit, stronger than expected competition from other tourist destinations as well as possible deterioration of the external environment.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2016 AND 2017

In 2016, the government headline balance reached a surplus of 0.4% of GDP, up from a general government deficit of 1.2% of GDP in 2015. The 2016 outcome corresponds to a primary balance of 3.0% of GDP, one of the highest in the euro area and up by 0.3 pps compared to the previous year (excluding one off measures in relation to the recapitalisation of the banking sector in 2015). On the revenue side, this is mostly due to a significant increase of taxes on production and imports and social security contributions, as a result of a strong tourism season and positive labour market developments. This was partly offset by factors beyond the control of the government, notably the new European VAT rules on the place of supply of e-commerce services estimated to impact negatively, lower taxes on interest due to reduced deposit rates and a decrease in dividend income from the Cental Bank. On the expenditure side, the reduction in total expenditures is mostly explained by a decrease in intermediate consumption due to lower energy prices and lower expenditures related to security, a contraction in compensation of employees mainly due to the reduction in gratuity payments following a decrease in retirements of state employees, and lower interest expenditures due to a reduction of the average interest rates. This was partly offset by an increase in gross fixed capital formation due to a combination of recurrent and one off expenditures (such as military spending), and an increase in subsidies and social transfers due to higher expenditure linked to the newly implemented guaranteed minimum income scheme.

The 2016 outcome outperformed the 2016 target set in the Draft Budgetary Plan for 2017 due to a better-than-expected economic activity, stronger revenue collection and tighter expenditure control.

For 2017, the stability programme estimates the government headline deficit to amount to 0.2% of GDP. This corresponds to an expected primary surplus of 2.6% of GDP. Total revenues are projected to decrease by 0.6 pps of GDP, mainly explained by lower taxes on income and wealth due to the abolition of the immovable property tax in 2017 and the abolition of the temporary solidarity payroll levy on public and private employees. Total expenditures are expected to decrease by 0.5 pps of GDP. This is explained by a reduction in the compensation of employees, following the collective agreement reached between the Government and public sector Unions, which contains the rate of growth in the wage bill, as well as the agreement for zero general salary increases in 2017-2018 and the zero replacement rates foreseen under the Budget Law for 2017, despite the additional personnel for security forces. It is also due to a drop in social assistance expenditures, in particular unemployment benefits, as well as a fall of the intermediate consumption and interest expenditures. These developments are offset by an increase of the gross fixed capital formation.

The 2017 government headline balance and primary balance estimates in the stability programme are higher than the 2017 targets set in the Draft Budgetary Plan. This is due to stronger-than-expected economic activity, leading to higher revenues from taxes on production and imports as well as tighter expenditure control, namely from lower compensation of employees, social payments and subsidies. This is partially offset by higher gross fixed capital expenditures.

3.2. MEDIUM-TERM STRATEGY AND TARGETS

The 2017 stability programme projects a decline of the headline balance of 0.2 pps of GDP in 2017 and to reach a surplus of 0.4% of GDP in 2018, which is maintained over the programme period. The primary balance is projected to be around 3% of GDP as of 2018. This would bring the structural balance to a balanced position in 2017 and to a negative position by the end of the programme, well below the MTO (Medium-Term Budgetary Objective) of 0%. According to the authorities, although the programme states that the fiscal policy strategy is based on the respect of the MTO over the medium term, the structural balance is estimated to deteriorate continuously throughout the programme horizon and to register a deficit of 1.1% of GDP by 2020. This is not in line with the regulation[1] which states that Member States shall submit stability programmes presenting their adjustment path towards the MTO.

The stability programme states that the MTO remains unchanged and targets a balanced structural position, more stringent[2] than what the Pact requires.

The recalculated structural balance[3] is estimated to deteriorate by 1.7% over the programme horizon. The deterioration is about 0.9% in 2017, with a further smaller decline of 0.3% in each of the years 2018 and 2019 and a fall of 0.2% in 2020, reaching to -0.8% of GDP at the end of the programme period. Thus, the programme is not in line with the requirement of the preventive arm of the Pact, as the recalculated structural balance for 2018 onwards is significantly below the MTO and does not present an adjustment path towards it. This is confirmed also by the structural balance projections included in the stability programme, taken at face value, suggesting that the MTO will not be met from 2018 onwards.

Compared to the Draft Budgetary Plan for 2017, the headline budget balance reported in the 2017 stability programme is higher by 0.8 pps of GDP. Total revenues are projected to be higher, mostly due to higher taxes on production and imports (by 0.3 pps of GDP) due to the carry over resulting from the better-than-expected outcome in 2016 due to both stronger growth and the strong tourism season, as well as higher other residual revenues (by 0.4 pps of GDP) as financing from the EU budget is expected to reach levels of the previous programming period. This is offset partially by a reduction of the taxes on income and wealth (by 0.3 pps of GDP). Total expenditures are projected to be lower, due to the lower compensation of employees (by 0.3 pps of GDP) following the public sector collective agreement setting the payroll growth below the nominal GDP, and a reduction of other expenditures (by 0.6% of GDP). This is partly offset by higher gross fixed capital formation expenditures (by 0.9 pps of GDP).

In 2017, the programme projects a headline budget surplus of 0.2% of GDP, which is similar to the Commission 2017 spring forecast. However, both total revenues and expenditures are projected to be higher (by 0.5 pps of GDP each) in the stability programme.

[1] Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

[2] The MTO selected by the Member State is more ambitious than the minimum MTO by more than 1/2 percentage point. The minimum MTOs are country-specific and calculated based on an agreed methodology.

[3] Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission on the basis of the information provided in the programme according to the commonly agreed methodology.

In 2018, the stability programme's projections on headline balance are more conservative than the Commission 2017 spring forecast (by 0.3 pps of GDP). These discrepancies are mostly driven by higher total revenues (by 0.3 pps of GDP) and total expenditures (by 0.6 pps of GDP). As already highlighted, this would bring a deterioration of the structural balance below the MTO. On the basis of the 2018 projections, the fiscal developments in 2019-2020, in terms of headline balance, are projected to remain at a surplus of 0.4% of GDP. However, the structural balance is set to deteriorate gradually, with the attainment of the MTO not projected by the end of the programme period.

Compared to the 2016 stability programme, the headline balance targets in the 2017 programme are more ambitious, reflecting a headline surplus of 0.2% of GDP in 2017 and of 0.4% from 2018 onwards (figure 1). This is explained by the macro-economic growth projections, which have been revised upwards since last year's programme, and the better-than-expected budget position in 2016. In terms of recalculated structural balance, the 2017 programme projects a lower deterioration for 2018 and 2019, including a balanced position in 2017.

Figure 1: Government balance projections in successive programmes (% of GDP)

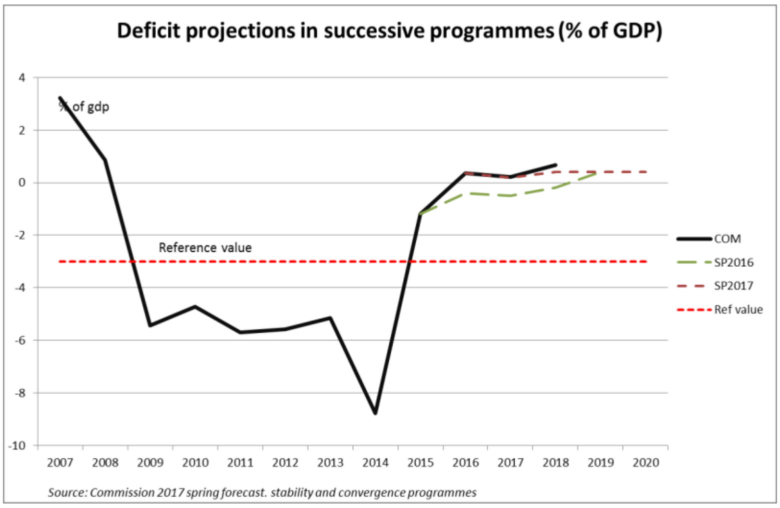


Table 2: Composition of the budgetary adjustment

(% of GDP)	2016	2017		2018		2019	2020	Change: 2016-2020
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**39.2**	**38.1**	**38.6**	**38.1**	**38.4**	**38.4**	**37.9**	**-1.3**
of which:								
- Taxes on production and imports	15.3	15.2	15.1	15.2	15.0	14.9	14.8	-0.5
- Current taxes on income, wealth, etc.	9.8	8.9	9.0	9.2	9.0	9.0	8.9	-0.9
- Social contributions	8.6	8.6	8.7	8.5	8.8	9.5	9.6	1.0
- Other (residual)	5.6	5.4	5.8	5.3	5.6	5.0	4.6	-1.0
Expenditure	**38.9**	**37.9**	**38.4**	**37.5**	**38.0**	**38.0**	**37.4**	**-1.5**
of which:								
- Primary expenditure	36.3	35.4	35.9	35.1	35.5	35.4	34.8	-1.5
of which:								
Compensation of employees	12.6	12.7	12.5	12.6	12.3	12.2	12.0	-0.6
Intermediate consumption	3.6	3.5	3.5	3.4	3.5	3.4	3.3	-0.3
Social payments	14.3	14.1	13.9	13.9	13.6	13.3	13.1	-1.2
Subsidies	0.5	0.5	0.5	0.5	0.5	0.5	0.4	-0.1
Gross fixed capital formation	2.5	2.3	2.8	2.3	2.8	3.2	3.2	0.7
Other (residual)	2.7	2.3	2.7	2.3	2.8	2.8	2.8	0.1
- Interest expenditure	2.6	2.4	2.5	2.4	2.5	2.6	2.6	0.0
General government balance (GGB)	**0.4**	**0.2**	**0.2**	**0.7**	**0.4**	**0.4**	**0.4**	**0.0**
Primary balance	**3.0**	**2.6**	**2.6**	**3.0**	**2.9**	**3.0**	**3.0**	**0.0**
One-off and other temporary	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
GGB excl. one-offs	**0.4**	**0.2**	**0.2**	**0.7**	**0.4**	**0.4**	**0.4**	**0.0**
Output gap[1]	-0.8	0.8	0.3	2.0	1.4	1.9	2.3	3.2
Cyclically-adjusted balance[1]	0.8	-0.2	0.0	-0.4	-0.3	-0.6	-0.8	-1.6
Structural balance[2]	**0.9**	**-0.2**	**0.0**	**-0.4**	**-0.3**	**-0.6**	**-0.8**	**-1.7**
Structural primary balance[2]	3.5	2.2	2.5	2.0	2.2	2.0	1.8	-1.7

Notes:

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

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

Source :

Stability Programme (SP); Commission 2017 spring forecasts (COM); Commission calculations.

3.3. MEASURES UNDERPINNING THE PROGRAMME

The stability programme does not report on discretionary measures planned for 2017-2020, even though the structural balance is projected to steadily deteriorate from 2018 onwards, well below the MTO of 0%. This is not in line with the regulation[4] which states that Member States shall submit stability programmes presenting a description of budgetary and other economic policy measures proposed to achieve the objectives of the programme.

[4] Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

The 2017 Draft Budgetary Plan reported the reduction of the immovable property tax (by up to 75%) in 2016 and its total abolishment in 2017, as a discretionary measure. Moreover, the abolition of the temporary contribution on emoluments of public and private sector employees and the recruitment of additional personnel in security forces are also mentioned in the stability programme as factors having an impact on expenditures in 2017. The Commission deems both measures as discretionary and, according to the stability programme, together they have an estimated impact of 0.5 pps of GDP in 2017. The estimates of the budgetary impact of these measures are in line with the Commission 2017 spring forecast.

3.4. DEBT DEVELOPMENTS

Following the peak in the general government gross debt of 107.8% of GDP in 2016, the stability programme projects a decrease in the debt-to-GDP ratio to 104% of GDP in 2017 and below 100% of GDP from 2018 onwards. This decline is expected to be driven by sustained general government budget surpluses and the continued economic growth. This declining trend is in line with the Draft Budgetray Plan for 2017 and the Commission spring forecast, although the debt-to-GDP ratio in 2017 is slightly lower in the Commission 2017 spring forecast. This is mainly due to differences in the projected growth and inflation, as well as in the assumptions of the the stock-flow adjustment[5].

Table 3: Debt developments

(% of GDP)	Average 2011-2015	2016	2017		2018		2019	2020
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**92.3**	**107.8**	**103.4**	**104.0**	**99.8**	**99.7**	**94.6**	**88.8**
Change in the ratio	10.3	0.3	-4.4	-3.8	-3.5	-4.3	-5.1	-5.8
Contributions[2] :								
1. Primary balance	**2.4**	**-3.0**	**-2.6**	**-2.6**	**-3.0**	**-2.9**	**-3.0**	**-3.0**
2. "Snow-ball" effect	**4.5**	**1.0**	**-1.0**	**-1.9**	**-0.9**	**-1.5**	**-1.4**	**-1.6**
Of which:								
Interest expenditure	2.9	2.6	2.4	2.4	2.4	2.5	2.6	2.6
Growth effect	1.4	-3.0	-2.6	-3.0	-2.3	-2.9	-2.6	-2.4
Inflation effect	0.3	1.4	-0.8	-1.3	-0.9	-1.1	-1.4	-1.8
3. Stock-flow adjustment	**3.4**	**2.2**	**-0.8**	**0.7**	**0.4**	**0.1**	**-0.7**	**-1.2**
Of which:								
Cash/accruals diff.				0.0		0.0	0.0	0.0
Acc. financial assets				0.7		0.1	-0.6	-1.1
Privatisation				0.0		0.0	0.0	0.0
Val. effect & residual				0.0		0.0	0.0	0.0

Notes:

[1] End of period.

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

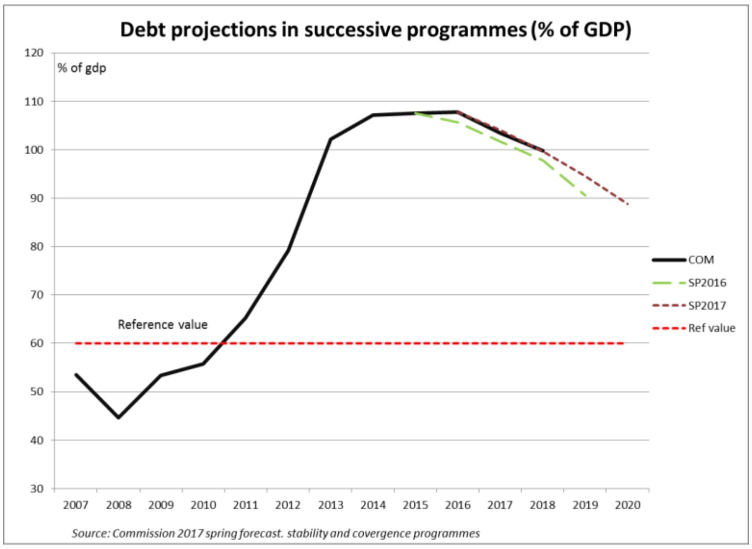
Source :

Commission 2017 spring forecast (COM); Stability Programme (SP), Comission calculations.

[5] The present note refers to the recalculated stock-flow adjustments by the Commission as a residual, after taking into account primary balance and snow-ball effect projections in the programme.

The 2017 stability programme's projections of public debt levels are similar to the ones of the Commission 2017 spring forecast (figure 2). Compared to the 2016 stability programme, the upward revision of the public debt projections in the 2017 programme is mainly explained by the higher initial starting position in public debt in 2016 due to higher treasury cash buffers.

Figure 2: Government debt projections in successive programmes (% of GDP)



3.5. RISK ASSESSMENT

As analysed in Section 2, real GDP growth projections put forward in the stability programme for 2017 and 2018 are higher than the Commission 2017 spring forecast. Risks appear to be tilted to the downside in both years. In particular, given that the UK is Cyprus' most significant trading partner, the developments in the pound sterling may weigh more on export growth than envisaged and the ability to increase exports at the envisaged rapid pace may be overestimated. In addition, the slow pace of reducing non-performing loans in the banking sector may lead to a prolonged period of tight credit, which would dampen the recovery.

As analysed in Section 3, in 2017, fiscal projections in the 2017 stability programme are comparable to the Commission 2017 spring forecast, while in 2018 the programme's projections are more conservative. In 2017, although risks seem to be tilted to the upside, the so called "programme fatigue" may pose a risk to the fiscal performance, which could materialise either through delays in adopting legislation or through other new policy initiatives affecting negatively the budgetary outcomes.

Regarding risks related to debt-to-GDP ratio developments, given that the debt-to-GDP ratio for Cyprus is very high (see section 3.4), there are downside risks related to higher interest expenditure due to unanticipated increases in the borrowing costs. This is mitigated by the high level of treasury cash buffers. The sizeable government guarantees also pose an additional risk.

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

Cyprus is subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO of a structural balance of 0% of GDP. Box 1 reports the latest country specific recommendations in the area of public finances.

Box 1. Council recommendations addressed to Cyprus
On 18 May 2016, the Council addressed recommendations to Cyprus in the context of the European Semester. In particular, in the area of public finances the Council recommended, following the correction of the excessive deficit, to respect the medium-term budgetary objective in 2016 and in 2017. By the end of 2016, adopt a binding mechanism containing the growth rate of the compensation of public employees. By the end of 2016, adopt the horizontal reform of the public administration and the law on the governance of state-owned entities, and implement the reform of local governments. By the end of 2016, adopt the secondary legislation to complete the new budgetary framework.

4.1. Compliance with the debt criterion

Following the correction of its excessive deficit in 2015, Cyprus is subject to the transitional debt rule for the next three years (2016-2018). As the debt ratio exceeds 60% of GDP, Cyprus should ensure compliance with the Minimum Linear Structural Adjustment (MLSA).

According to the stability programme, the recalculated change in the structural balance for 2017 and 2018 is higher than the required MLSA and, therefore, Cyrpus is making sufficient progress towards compliance with the debt criterion in 2017 and 2018.

According to the Commission 2017 spring forecast, Cyprus is also making sufficient progress towards compliance with the debt criterion in 2017 and 2018. In particular, Cyprus is projected to be compliant with the required MLSA in 2017 (-1.1% of GDP vis-à-vis the required –1.4% of GDP) and 2018 (-0.2% of GDP vis-à-vis the required –2.0% of GDP). The expected decline in Cyprus' debt-to-GDP ratio mostly owes to the debt-decreasing impact of real GDP growth in 2017 and 2018, as well as a pick-up in inflation and the more favourable path of the general government balance.

Table 4. Compliance with the debt criterion

	2016	2017		2018	
		SP	COM	SP	COM
Gross debt ratio	**108**	**104.0**	**103.4**	**99.7**	**99.8**
Gap to the debt benchmark [1,2]					
Structural adjustment [3]	-0.5	-0.9	-1.1	-0.3	-0.2
To be compared to:					
Required adjustment [4]	-1.0	-2.5	-1.4	-4.1	-2.0

Notes:

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

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

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

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

Source :
Commission 2017 spring forecast (COM); Stability Programme (SP), Comission calculations.

4.2. Compliance with the MTO

Following the abrogation of the EDP in 2015, Cyprus is expected to comply with the requirements of the preventive arm of the SGP.

Based on the outturn data for 2016 and the Commission 2017 spring forecast, Cyprus is compliant with the requirement of the preventive arm of the Pact in 2016 as the structural balance registered a surplus of 0.9% of GDP, well above the MTO of a balanced budget in structural terms.

In 2017, according to the information provided in the stability programme, the recalculated structural balance is expected to reach a balanced position, broadly pointing to compliance with the requirement to remain at the MTO (i.e. deviation of less than -0.1% of GDP, see table 5 below). However, the growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the applicable expenditure benchmark (deviation of -0.3% of GDP), thus pointing to a risk of some deviation from the requirements. This calls for an overall assessment. As regards the structural balance pillar, it is negatively impacted by revenue shortfalls (0.7% of GDP) and negatively by the hike of nationally-financed public investments (0.1% of GDP). The reading of the fiscal effort based on the expenditure benchmark pillar is negatively impacted by the use of a medium-term potential GDP growth rate that reflects the negative growth rates in previous years due to the economic crisis and, therefore, is deemed to underestimate Cyprus' underlying fiscal effort. After correcting for these factors, both the structural balance and the expenditure benchmark pillars point to compliance.

Based on the Commission 2017 spring forecast, in 2017, the structural balance is expected to deteriorate by 1.1% of GDP, pointing to a risk of some deviation from the MTO (deviation of -0.2% of GDP). The expenditure benchmark points to a risk of some deviation too (deviation of -0.4% of GDP). Therefore, an overall assessment has to be carried out. On the one hand, the structural balance pillar is negatively impacted by sizeable revenue shortfalls (1.0% of GDP) and positively by the fall of nationally-financed public investments (0.6% of GDP) and interest rate expenditures (0.1% of GDP). The revenue shortfalls mainly relate to the reduction of central bank dividends and the implementation of the new European VAT rules for the place-of-supply of e-commerce services. On the other hand, the benchmark rate reflects the negative potential growth rates in previous years due to the economic crisis and, therefore, it is deemed to underestimate the relevant medium-term potential growth rate at the current juncture. After correcting for these factors, both the structural balance and the expenditure benchmark pillars point to compliance. Thus, the overall assessment confirms that the adjustment path towards the MTO for Cyprus seems to be appropriate and compliant with the requirement of the preventive arm of the Pact in 2017.

The overall assessment has improved in the Commission 2017 spring forecast, compared to the assessment based on the Commission 2016 autumn forecast. The structural balance has been revised upwards by 1.1 pps of GDP. This is explained by a better-than-expected budgetary balance in 2016 (by 0.6 pps of GDP), as well as lower estimate of the output gap. The later is due to a higher potential GDP estimate, as a result of increased participation rates and higher labour force coming from the upward revision of the working age population projections, as well as lower structural unemployment rates. The assessment of the expenditure benchmark has also changed for 2017. This is based on the upward revision of the nominal growth rates for GDP and the downward revision of the change of the output gap, compared to the autumn assessment.

In 2018, according to the information provided in the stability programme, the recalculated structural balance is expected to slightly deteriorate by -0.3% of GDP, resulting in a risk of significant deviation from the requirement to remain at the MTO (deviation of -0.5% of GDP). The growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the expenditure benchmark (deviation of -1.1% of GDP), also pointing to a risk of significant deviation. This calls for an overall assessment. As regards the structural balance pillar, it is negatively impacted by revenue shortfalls (0.3% of GDP) and interest rate expenditures (0.1% of GDP), as well as positively impacted by the fall of nationally-financed public investments (0.1% of GDP). The reading of the fiscal effort based on the expenditure benchmark pillar is negatively impacted by the use of a medium-term potential GDP growth rate that reflects the negative growth rates in previous years due to the economic crisis and, therefore, is deemed to underestimate Cyprus' underlying fiscal effort. After correcting for these factors, both the structural balance and the expenditure benchmark pillars point to some deviation from the adjustment path towards the MTO.

According to the Commission 2017 spring forecast, in 2018, the structural balance is expected to slightly deteriorate by -0.2% of GDP, pointing to a risk of some deviation from the MTO (deviation of -0.4% of GDP). The expenditure benchmark points to a risk of significant deviation (deviation of -0.8% of GDP). This calls for an overall assessment. As regards the structural balance pillar, it is negatively impacted by revenue shortfalls (0.1% of GDP) and positively by the fall of nationally-financed public investments (0.2% of GDP). Concerning the expenditure benchmark pillar, the benchmark rate used for the computation of the expenditure benchmark reflects the negative potential growth rates in previous years due to the economic crisis and, therefore, it is considered to underestimate the relevant medium-term potential growth rate at the current juncture. All in all, the overall assessment confirms that some deviation from the adjustment path towards the MTO is to be expected for Cyprus in 2018.

The assessment over the years 2017 and 2018 together points to significant deviation based on both the structural balance and the expenditure benchmark pillars based on the information provided in the stability programme (deviation of -0.3% and -0.7% of GDP, respectively). Similarly, the Commission 2017 spring forecast also points to significant deviation based on both the structural balance and the expenditure benchmark pillars (deviation of -0.3% and -0.6% of GDP, respectively). Therefore, an overall assessment has to be carried out. Based on the information provided in the stability programme, and taking into account the differences in potential growth rates, revenue shortfalls and dynamics of investment and interest expenditures impacting on 2017 and 2018, both the structural balance and the expenditure benchmark pillars point to compliance over the years 2017 and 2018 together following an overall assessment. Based on the Commission 2017 spring forecast, and notably taking into account the above-mentioned differences in potential growth rates, revenue shortfalls and dynamics of investment and interest expenditures impacting on both 2017 and 2018, the overall assessment confirms that some deviation from the adjustment path towards the MTO is to be expected for Cyprus over the years 2017 and 2018 together.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2016	2017		2018	
Initial position[1]					
Medium-term objective (MTO)	0.0	0.0		0.0	
Structural balance[2] (COM)	0.9	-0.2		-0.4	
Structural balance based on freezing (COM)	0.9	-0.2		-	
Position vis-a -vis the MTO[3]	At or above the MTO	At or above the MTO		At or above the MTO	
(% of GDP)	**2016**	**2017**		**2018**	
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Required adjustment[4]	0.0	0.0		0.0	
Required adjustment corrected[5]	-1.7	-0.9		0.2	
Change in structural balance[6]	-0.5	-0.9	-1.1	-0.3	-0.2
One-year deviation from the required adjustment [7]	1.2	-0.1	-0.2	-0.5	-0.4
Two-year average deviation from the required adjustment [7]	0.0	0.6	0.5	-0.3	-0.3
Expenditure benchmark pillar					
Applicable reference rate[8]	4.6	2.0		0.3	
One-year deviation adjusted for one-offs[9]	1.9	-0.3	-0.4	-1.1	-0.8
Two-year deviation adjusted for one-offs[9]	1.9	0.8	0.7	-0.7	-0.6
PER MEMORIAM: One-year deviation [10]	2.7	-0.3	-0.3	-1.1	-0.8
PER MEMORIAM: Two-year average deviation [10]	5.9	1.6	1.2	-0.7	-0.6
Conclusion					
Conclusion over one year	Compliance	Overall assessment	Overall assessment	Some deviation	Overall assessment
Conclusion over two years	Compliance	Compliance	Compliance	Overall assessment	Overall assessment

Notes

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

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

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

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

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

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2014) is carried out on the basis of Commission 2015 spring forecast.

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

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

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

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

Source :

Stability programme (SP); Commission 2017 spring forecast (COM); Commission calculations.

Box 2. Implementation of the "constrained judgement" approach and its impact in the context of the fiscal surveillance

The April 2016 Amsterdam Informal ECOFIN Council requested that improvements be made to the commonly agreed methodology for the estimation of potential growth and the output gap. In response to this mandate from the Council, two concrete decisions were taken in agreement with the Member States in October 2016.

First, it was agreed that a revised methodology for the estimation of the non-accelerating wage rate of unemployment (NAWRU) would be introduced in the commonly agreed methodology. Second, it was agreed to introduce a "constrained judgement" approach for cases where the commonly agreed methodology appears to produce "counterintuitive" output gap results for individual Member States. Both changes have already been implemented in the assessment of 2017 Draft Budgetary Plans.

The objective of the "constrained judgement" approach is to have a transparent and economically grounded tool to statistically test the plausibility of the output gap estimates for individual Member States estimated on the basis of the common method. To this end, the Commission developed an objective screening tool - based on a set of cyclically relevant indicators as well as thresholds/ranges - to signal cases when the outcomes of the commonly agreed methodology could be interpreted as being subject to a large degree of uncertainty and therefore deserving of further investigation on the part of the Commission. If this plausibility tool identifies possibly "counterintuitive" results from the common methodology, the Commission carries out an "in depth" analysis which could lead to the application of a "constrained" degree of judgement in conducting Member States' budgetary assessments.

For Cyprus, the plausibility tool provided indications that the output gap estimated for 2016 at -0.8% on the basis of the common methodology may be counterintuitive as it compares with more negative values of -1.8% estimated on the basis of this tool. The estimation of the output gap in Cyprus is surrounded by a larger-than-usual degree of uncertainty, due to recent financial crisis and ensuing deep recession, combined with a strong cyclical recovery. Lower labour market participation, a higher structural unemployment rate and subdued investment are the factors that have brought potential growth to around 0%. These specific features of Cyprus' economy are not taken into account by the plausibility tool and therefore its application to Cyprus seems not appropriate.

In light of the uncertainty surrounding the estimation of the level of the output gap for Cyprus, the Commission does not see sufficient ground to deviate from the output gap estimated on the basis of the commonly agreed methodology.

5. LONG-TERM SUSTAINABILITY

Cyprus appears to face low fiscal sustainability risks in the short run, which turn to medium in the medium-term and low in the long-term (table 6).

Overall, Cyprus does not appear to face fiscal sustainability risks in the short run according to the S0 indicator, which captures short-term risks of fiscal stress stemming from the fiscal, as well as the macro-financial and competitiveness sides of the economy. Nonetheless, there are some indications that the financial and competitiveness side of the economy continue to pose potential challenges.

In the medium-term, the fiscal sustainability risk indicator S1 is assessed as a medium risk (at 0.7 pps of GDP), primarily related to the high level of government debt. Full implementation of the stability programme would further increase this indicator (to 1.1 pps of GDP), with the remaining assessement of a medium-term risk.

Based on Commission 2017 spring forecast and a no-fiscal policy change scenario beyond the forecast horizon, government debt, is expected to decrease from 107.8% of GDP in 2016 to 75.5% in 2027, thus remaining above the 60% of GDP Treaty threshold. The implementation of the stability programme would also put debt on a decreasing path in line with the Commission 2017 spring forecast.

In the long-term, fiscal sustainability risk indicator S2 (which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path) is assessed as a low risk (at -1.9 pps of GDP). Full implementation of the programme would lead to some decrease in this indicator (to -1.4 pps of GDP), leading to a similarly low long-term risk profile. Cyprus' positive long-term sustainability assessesement has benefitted from a strong initial budgetary position as well as the effects of the 2012 pension reform and other measures implemented during the economic adjustment programme, which have reduced the cost of ageing in the long-term.

Table 6. Sustainability indicators
Cyprus

Time horizon			No-policy Change Scenario		Stability / Convergence Programme Scenario	
Short Term			**LOW risk**			
S0 indicator [1]			0.4			
	Fiscal subindex		0.1	LOW risk		
	Financial & competitiveness subindex		0.6	HIGH risk		
Medium Term			**MEDIUM risk**			
DSA [2]			MEDIUM risk			
S1 indicator [3]			0.7	MEDIUM risk	1.1	MEDIUM risk
of which						
	Initial Budgetary Position		-1.9		-1.5	
	Debt Requirement		3.1		2.6	
	Cost of Ageing		-0.4		0.0	
	of which					
		Pensions	0.1		0.3	
		Health-care	0.1		0.1	
		Long-term care	0.0		0.0	
		Other	-0.7		-0.5	
Long Term			**LOW risk**		**LOW risk**	
S2 indicator [4]			-1.9		-1.4	
of which						
	Initial Budgetary Position		-1.2		-1.1	
	Cost of Ageing		-0.7		-0.3	
	of which					
		Pensions	0.2		0.4	
		Health-care	0.2		0.2	
		Long-term care	0.2		0.2	
		Other	-1.3		-1.0	

Source: Commission services; 2017 stability/convergence programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2017 forecast covering until 2018 included. The 'stability/convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2031. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2019 for No-policy Change scenario and from last available year for the SCP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2015 and Debt Sustainability Monitor 2016.

6. FISCAL FRAMEWORK

In 2016, Cyprus achieved a structural balance of 0.9% of GDP, above the MTO of 0% of GDP. In 2017, based on the stability programme's projections taken at face value, the structural balance is expected to reach a balanced position and therefore to achieve the MTO. However, from 2018 onwards, the stability programme submitted by the authorities shows a continuous deterioration in the structural balance which falls to a deficit of 1.1% of GDP by 2020, substantially below the MTO.

The national fiscal rules are laid down in he Fiscal Responsibility and Budgetary Framework Law[6] (FRBFL), containing in particular structural balance, corrective adjustment and debt rules. According to the FRBFL law, "any temporary deviation from the norm structural adjustment may be permitted under specific circumstances, provided that this does not endanger fiscal sustainability in the medium term." Therefore, risks to compliance with the national fiscal rules exist, as the structural balance deteriorates steadily from 2018 onwards.

As regards the debt requirement in the transition period (2016-2018), the minimum linear structural adjustment is achieved, based on the in formation provided in the stability programme. Following the transition period, the debt reduction benchmark applies.

As a result, based on the information provided in the stability programme, the past, planned and forecast fiscal performance in Cyprus appears to comply only partially with the requirements of the applicable national numerical fiscal rules.

The macroeconomic and fiscal forecasts underlying the programme had been submitted to the Fiscal Council for endorsement. The Fiscal Council is an independent statutory body, which shall assess and publicly comment on whether the government is meeting its own stated budgetary targets and objectives, in particular through assessments of annual budgets and the stability programmes. On 20 April, the Council concluded in a public letter to the Minister of Finance that the officially forecast headline GDP and budget balance figures for the programming period were judged to be realistic and sufficiently prudent. At the same time, it flagged some risks around the country's medium-term growth path, mainly linked to the non-implementation of the envisaged reform plans. The Council's detailed assessment is expected to appear in its 2017 spring report.[7]

The programme explicitly states that it should qualify as Cyprus national medium-term fiscal plans (NMTFPs). This is in line with the obligation for euro area members states (Art. 4(1) of the Two-Pack Regulation 473/2013) to make public by 30 April each year their national medium-term fiscal plans (NMTFPs) in accordance with their medium-term budgetary framework.

7. SUMMARY

In 2016, Cyprus achieved an improvement of the structural balance of 0.9% of GDP, which is well above the required adjustment towards the MTO.

Based on the information provided in the stability programme, in 2017, Cyprus is expected to be broadly compliant with the requirement to remain at the MTO (a deviation of less than -0.1% of GDP). The growth rate of government expenditure, net of discretionary revenue

[6] Law 20(I)/2014, adopted in February 2014.

[7] Spring report 2017, Fiscal Council (forthcoming).

measures, is projected to exceed the applicable expenditure benchmark rate by 0.3% of GDP. Based on an overall assessment of the Comission 2017 spring forecast, the adjustment path towards the MTO for Cyprus seems to be appropriate for 2017.

In 2018, based on the stability programme estimates, the recalculated structural balance is expected to deteriorate, leading to a deviation of 0.5% of GDP from the MTO. The growth rate of government expenditure, net of discretionary revenue measures, is projected to exceed the applicable expenditure benchmark rate by 1.1% of GDP. The assessment over the years 2017 and 2018 together points to significant deviation for both the structural balance and the expenditure benchmark pillars based on the information provided in the stability programme (deviation of -0.3% and -0.7% of GDP, respectively). Based on an overall assessment of the Commission 2017 spring forecast, there is a risk of some deviation from the recommended adjustment path towards the MTO over the years 2017 and 2018 together.

From 2018 onwards, although the stability programme claims that the fiscal policy strategy is based on the respect of the MTO over the medium term, the structural balance is estimated to deteriorate continuously, well below the MTO of 0%. Thus, the stability programme is not in line with the requirement of the preventive arm of the Pact, as the structural balance throughout the programme horizon does not present an adjustment path towards the MTO.

According to the stability programme, the recalculated change in the structural balance for 2017 and 2018 is higher than the required MLSA and, therefore, Cyrpus is making sufficient progress towards compliance with the debt criterion in 2017 and 2018.

8. ANNEX

Table I: Macroeconomic indicators

	1999-2003	2004-2008	2009-2013	2014	2015	2016	2017	2018
Core indicators								
GDP growth rate	4.0	4.3	-1.8	-1.5	1.7	2.8	2.5	2.3
Output gap [1]	0.9	3.7	-1.8	-6.3	-3.3	-0.8	0.8	2.0
HICP (annual % change)	2.9	2.5	1.9	-0.3	-1.5	-1.2	1.2	1.1
Domestic demand (annual % change) [2]	4.3	7.3	-4.5	-1.4	2.9	3.9	2.2	2.3
Unemployment rate (% of labour force) [3]	4.3	4.4	9.5	16.1	15.0	13.1	11.7	10.6
Gross fixed capital formation (% of GDP)	20.3	24.0	18.8	11.7	13.3	17.2	17.5	18.1
Gross national saving (% of GDP)	16.9	6.4	12.2	7.9	11.5	9.8	10.0	10.1
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.6**	**-0.6**	**-5.3**	**-8.8**	**-1.2**	**0.4**	**0.2**	**0.7**
Gross debt	**57.8**	**56.8**	**71.2**	**107.1**	**107.5**	**107.8**	**103.4**	**99.8**
Net financial assets	**-30.2**	**-29.5**	**-41.7**	**-65.5**	**-67.7**	**n.a**	**n.a**	**n.a**
Total revenue	32.4	37.7	36.5	39.6	39.2	39.2	38.1	38.1
Total expenditure	36.0	38.3	41.8	48.4	40.4	38.9	37.9	37.5
of which: Interest	3.0	2.9	2.6	2.8	2.9	2.6	2.4	2.4
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**3.7**	**-10.6**	**3.3**	**14.3**	**7.1**	**1.1**	**0.2**	**-1.4**
Net financial assets; non-financial corporations	**-208.7**	**-157.2**	**-197.8**	**-226.3**	**-226.4**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-31.2**	**15.1**	**5.2**	**32.7**	**57.4**	**n.a**	**n.a**	**n.a**
Gross capital formation	8.3	8.4	7.5	5.2	6.9	8.2	8.4	8.8
Gross operating surplus	30.3	23.1	20.7	21.9	21.7	20.0	20.2	20.1
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**-4.0**	**-6.6**	**-4.2**	**-9.5**	**-8.8**	**-7.6**	**-6.7**	**-6.0**
Net financial assets	**133.9**	**124.5**	**114.2**	**114.4**	**111.5**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	33.9	35.8	39.0	35.7	35.8	36.2	36.2	36.2
Net property income	5.9	5.2	1.2	0.4	1.1	0.9	2.1	3.1
Current transfers received	15.7	18.7	20.5	22.2	19.5	20.2	19.9	19.8
Gross saving	4.2	5.5	3.1	-5.1	-3.8	-3.0	-1.8	-0.8
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.3**	**-17.7**	**-6.3**	**-4.4**	**-2.7**	**-5.2**	**-5.3**	**-5.8**
Net financial assets	**136.3**	**47.2**	**120.9**	**145.5**	**126.0**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	2.5	-4.2	-3.0	2.1	0.3	-0.4	-0.6	-1.0
Net primary income from the rest of the world	-7.0	-14.3	-2.4	-3.7	-0.4	-2.7	-2.7	-2.7
Net capital transactions	0.3	0.6	0.5	0.0	0.3	0.6	0.6	0.6
Tradable sector	42.9	35.5	33.6	34.1	34.7	35.3	n.a	n.a
Non tradable sector	47.8	51.6	54.9	53.6	53.3	52.3	n.a	n.a
of which: Building and construction sector	7.9	9.7	6.1	3.2	3.2	3.4	n.a	n.a
Real effective exchange rate (index, 2000=100)	84.2	96.8	100.3	93.4	88.5	88.0	87.5	86.6
Terms of trade goods and services (index, 2000=100)	98.8	100.3	99.9	99.9	99.2	99.6	98.9	98.3
Market performance of exports (index, 2000=100)	117.9	94.2	104.9	109.2	105.3	107.1	107.2	106.9

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :
AMECO data, Commission 2017 spring forecast