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Assessment of the 2016-17 convergence programme for the United Kingdom

(Note prepared by DG ECFIN staff)

CONTENTS

1. INTRODUCTION

This document assesses the 2016-17 convergence programme for the United Kingdom (hereafter called convergence programme), which was submitted to the Commission on 27 April 2017 and covers the period 2016-17 to 2021-22. It was approved by the government and presented to the national parliament for a debate without a vote. The parliament was, however, required to approve the government’s assessment of the United Kingdom’s medium-term economic and budgetary position, which forms the basis of the convergence programme. The content of the convergence programme is based on the 2016 Autumn Statement and the 2017 Spring Budget, published by HM Treasury, along with the Office for Budget Responsibility’s (OBR) March 2017 Economic and Fiscal Outlook and 2017 Fiscal Sustainability Report.

The United Kingdom is currently subject to the corrective arm of the Stability and Growth Pact (SGP). The Council opened the Excessive Deficit Procedure (EDP) for the United Kingdom on 2 December 2009, recommending a correction of the excessive deficit by 2014-15. On 19 June 2015, the Council decided that the UK had not taken effective action in compliance with the Council's recommendations and issued a revised recommendation granting two additional years for the correction of the excessive deficit. The United Kingdom was therefore recommended to correct the excessive deficit by 2016-17. The year following the correction of the excessive deficit, the United Kingdom will be subject to the preventive arm of the SGP and should ensure sufficient progress towards the minimum medium-term objective (MTO). As the debt ratio in 2016-17 is expected to have exceeded the 60% of GDP reference value, the United Kingdom will also be subject to the transitional arrangements as regards compliance with the debt criterion during the three years following the correction of the excessive deficit (transitional debt rule), during which it should ensure sufficient progress towards compliance.

This document complements the Country Report published on 22 February 2017, updating it with information included in the convergence programme.

Section 2 presents the macroeconomic outlook underlying the convergence programme and provides an assessment based on the Commission 2017 spring forecast. The following section presents the recent and planned budgetary developments, according to the convergence programme. In particular, it includes an overview on the medium term budgetary plans, an assessment of the measures underpinning the convergence 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 of long-term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework. Section 7 summarises.

2. MACROECONOMIC DEVELOPMENTS

The United Kingdom's economy grew by 1.8% in 2016, a slowdown compared to growth of 2.2% in 2015. The macroeconomic scenario for the United Kingdom set out in the convergence programme is predicated on a pickup in growth to 2.0% in 2017 followed by a moderation to 1.6% in 2018. The contribution of domestic demand to economic growth is expected to decline over this period, with higher inflation and continued moderate nominal wage growth expected to put pressure on consumers' spending power. In contrast, net exports are expected to contribute positively to growth in 2017 and 2018, following a negative contribution in 2016, reflecting the impact of the significant depreciation of GBP in 2016. The overall profile of economic growth is, therefore, expected to be become somewhat more balanced than in recent years.

The United Kingdom is at a mature position in its economic cycle. The output gap (as recalculated by the Commission based on the information in the convergence programme, following the commonly agreed methodology) closed in 2015 and is projected to remain mildly positive, before falling to zero in 2020.

The convergence programme contains favourable macroeconomic assumptions, particularly in 2018, with economic growth projected to be higher than in the Commission 2017 spring forecast. The Commission forecasts growth of 1.8% and 1.3% in 2017 and 2018, respectively. The underlying trend of weakening domestic demand over the forecast horizon is a feature of both the convergence programme and the Commission projections and both also anticipate a positive contribution from net exports in 2017 and 2018. The Commission forecasts weaker labour market outcomes than the convergence programme, with the unemployment rate expected to increase in 2017 and 2018, compared to the stable rate projected in the convergence programme. In line with this, the projected growth rate of compensation of employees is weaker in the Commission forecast. The projected outlook for inflation is similar in both forecasts. The Commission forecast for the output gap is consistently slightly higher than the one recalculated based on information in the convergence programme.

Table 1: Comparison of macroeconomic developments and forecasts

	2016		2017		2018		2019	2020
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	1.8	1.8	1.8	2.0	1.3	1.6	1.7	1.9
Private consumption (% change)	2.8	3.0	1.8	1.8	0.9	0.9	1.7	1.7
Gross fixed capital formation (% change)	0.5	0.5	0.2	0.8	0.3	3.0	3.3	3.9
Exports of goods and services (% change)	1.8	1.4	3.4	3.4	3.0	3.0	1.6	0.7
Imports of goods and services (% change)	2.8	2.5	2.0	2.1	1.2	1.9	1.4	0.8
Contributions to real GDP growth:								
- Final domestic demand	2.0	2.2	1.4	1.5	0.8	1.2	1.7	1.9
- Change in inventories	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	-0.3	-0.4	0.4	0.3	0.5	0.3	0.0	-0.1
Output gap[1]	0.5	0.4	0.7	0.6	0.4	0.3	0.1	0.0
Employment (% change)	1.4	1.4	0.6	0.6	0.4	0.4	0.4	0.4
Unemployment rate (%)	4.8	4.9	5.0	4.9	5.4	5.1	5.2	5.2
Labour productivity (% change)	0.4	0.4	1.2	1.4	0.8	1.1	1.3	1.5
HICP inflation (%)	0.7	0.7	2.6	2.4	2.6	2.3	2.0	2.0
GDP deflator (% change)	1.7	1.7	1.6	1.8	1.9	1.6	1.6	1.9
Comp. of employees (per head, % change)	2.8	2.8	2.4	2.9	2.4	3.0	3.1	3.5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-4.5	4.0	-3.9	3.5	-3.2	3.1	2.5	2.1

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); Convergence Programme (CP).

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. Deficit developments in 2016-17 and 2017-18

According to the convergence programme and preliminary data from the Office for National Statistic (ONS), published on 25 April 2017, the general government deficit is expected to have fallen from 4.0% of GDP in 2015-16 to 2.7% of GDP in 2016-17 - with the latter figure 0.2 pps below the projection in the 2015-16 convergence programme - in line with the target recommended by the Council. At 36.4% of GDP, the revenue ratio in 2016-17 is expected to have been slightly lower than projected in the 2015-16 convergence programme (36.7%). The expenditure ratio is also expected to have been lower than in the 2015-16 convergence programme (39.1% vs. 39.5% of GDP). Lower-than-expected revenues are largely due to a weaker-than expected yield from taxes on production and imports (12.9% vs. 13.1% of GDP). On the expenditure side, "other" spending is expected to have been lower than forecast in the 2015-16 convergence programme (2.5% vs 2.9% of GDP), while spending on net social benefits is expected to have been slightly lower (11.8% vs 12% of GDP).

According to the convergence programme, the deficit is projected to rise to 2.8% of GDP in 2017-18, 0.8 pps higher than the deficit anticipated in the 2015-16 convergence programme. This is partly due to policy measures announced by the government in the 2016 Autumn Statement and 2017 Spring Budget, which are expected to increase the 2017-18 deficit by 0.3% of GDP. A lower forecast for nominal GDP growth in 2017-18 (3.3% compared to 4% in the previous convergence programme) also contributes. The higher deficit projection also reflects the slower pace of fiscal consolidation announced by the government in the 2016 Autumn Statement, in line with its updated fiscal objective (see below). The Commission also forecasts the headline deficit to rise to 2.8% of GDP in 2017-18. The structural balance (the cyclically-adjusted balance net of one-off measures), recalculated by the Commission according to the commonly agreed methodology, is projected to be -3.2% of GDP in 2017-18. This is very close to the Commission forecast (-3.1% of GDP).

3.2. Medium-term strategy and targets

The main goal of the convergence programme's medium-term budgetary strategy is to meet the United Kingdom's national fiscal objective, which is to "return the public finances to balance at the earliest possible date in the next Parliament". This objective was announced in the 2016 Autumn Statement and replaced a previous objective to achieve a surplus on public-sector net borrowing (PSNB) by the end of the fiscal year 2019-20. At the time that the new objective was adopted, it was expected that the next general election would take place in 2020. However, since then, the government has called a general election for 8 June 2017. The updated objective is complemented by three supplementary targets, namely: 1) to achieve a structural deficit below 2% by 2020-21; 2) that public sector net debt falls as a percentage of GDP by 2020-21; and 3) that total spending on a selection of welfare benefits (excluding the state pension and the most cyclical benefits) be below a target nominal level (i.e. a "welfare cap") by 2021-22. The convergence programme does not define an MTO. The SGP requires all Member States to define an MTO in their stability or convergence programme. For the purpose of assessing compliance with the preventive arm, the Commission uses the minimum MTO allowable under the agreed methodology.

The budgetary forecasts in the convergence programme are projections under a no-policy-change assumption. This assumes that the government's existing fiscal plans are implemented in full, including reductions to the budgets of some government departments and to working age social transfers, as set out in the multi-year Spending Review published in November

2015. The time profile of the budgetary adjustment envisaged in the convergence programme is gradual, with the headline deficit initially rising from 2.7% of GDP in 2017-18 to 2.8% of GDP in 2017-18 but then falling to 0.9% by 2020-21. The forecast improvement in the recalculated structural balance is on average equal to the current preventive arm requirement of 0.6% per annum, although there is a high degree of variation in the annual changes. According to the convergence programme, the headline deficit is forecast at 1.9% of GDP in 2018-19 and the recalculated structural deficit at 2.1%. The Commission forecasts a headline deficit of 2.0% of GDP in 2018-19 and a structural deficit of 2.2%. While these headline figures are quite similar, the Commission forecasts a higher revenue ratio (38.9% vs. 36.8% of GDP) and a higher expenditure ratio (40.9% of GDP vs. 38.7% of GDP) in 2018-19, although this is largely due to differences in accounting treatment. The deficit projections over the next two years are, overall, sufficiently supported by measures, although medium-term measures have yet to be specified.

Table 2: Composition of the budgetary adjustment[1]

(% of GDP)	2016-17		2017-18		2018-19		2019-20	2020-21	Change 16-17 to 20-21
	COM	CP	COM	CP	COM	CP	CP	CP	CP
Revenue	**39.1**	**36.4**	**38.8**	**36.4**	**38.9**	**36.8**	**36.8**	**36.7**	**0.3**
of which:									
- Taxes on production and imports	13.0	12.9	13.2	13.1	13.3	13.2	13.3	13.2	0.3
- Current taxes on income, wealth, etc.	14.2	12.1	13.8	11.8	13.8	12.0	12.0	11.9	-0.2
- Social contributions	8.0	6.4	7.9	6.4	7.8	6.4	6.5	6.5	0.1
- Other (residual)	3.9	5.1	3.9	5.1	3.9	5.2	5.1	5.1	0.0
Expenditure	**41.8**	**39.1**	**41.5**	**39.3**	**40.9**	**38.7**	**37.9**	**37.6**	**-1.5**
of which:									
- Primary expenditure	39.4	36.5	39.0	36.5	38.5	36.2	35.4	35.3	-1.2
of which:									
Compensation of employees	9.1	n.a.	8.9	n.a.	8.7	n.a.	n.a.	n.a.	n.a.
Intermediate consumption	8.6	n.a.	8.5	n.a.	8.4	n.a.	n.a.	n.a.	n.a.
Social payments	15.8	11.8	15.8	11.7	15.6	11.5	11.2	11.1	-0.7
Subsidies	0.7	0.8	0.7	0.9	0.7	1.0	1.0	1.1	0.3
Gross fixed capital formation	2.6	2.4	2.6	2.4	2.6	2.4	2.4	2.6	0.2
Other (residual)	2.6	2.5	2.6	2.9	2.5	3.0	2.9	3.0	0.5
- Interest expenditure	2.4	2.5	2.5	2.8	2.4	2.5	2.4	2.3	-0.2
General government balance (GGB)	**-2.7**	**-2.7**	**-2.8**	**-2.8**	**-2.0**	**-1.9**	**-1.1**	**-0.9**	**1.8**
Primary balance	**-0.2**	**-0.2**	**-0.3**	**-0.1**	**0.5**	**0.6**	**1.4**	**1.4**	**1.6**
One-off and other temporary	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	**-2.7**	**-2.7**	**-2.8**	**-2.8**	**-2.0**	**-1.9**	**-1.1**	**-0.9**	**1.8**
Output gap[1]	0.5	0.4	0.7	0.6	0.4	0.3	0.1	0.0	-0.4
Cyclically-adjusted balance[1]	-3.0	-2.9	-3.1	-3.2	-2.2	-2.1	-1.1	-0.9	2.0
Structural balance[2]	**-3.0**	**-2.9**	**-3.1**	**-3.2**	**-2.2**	**-2.1**	**-1.1**	**-0.9**	**2.0**
Structural primary balance[2]	-0.5	-0.5	-0.6	-0.4	0.3	0.5	1.3	1.4	1.9

Notes:

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

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

Source :

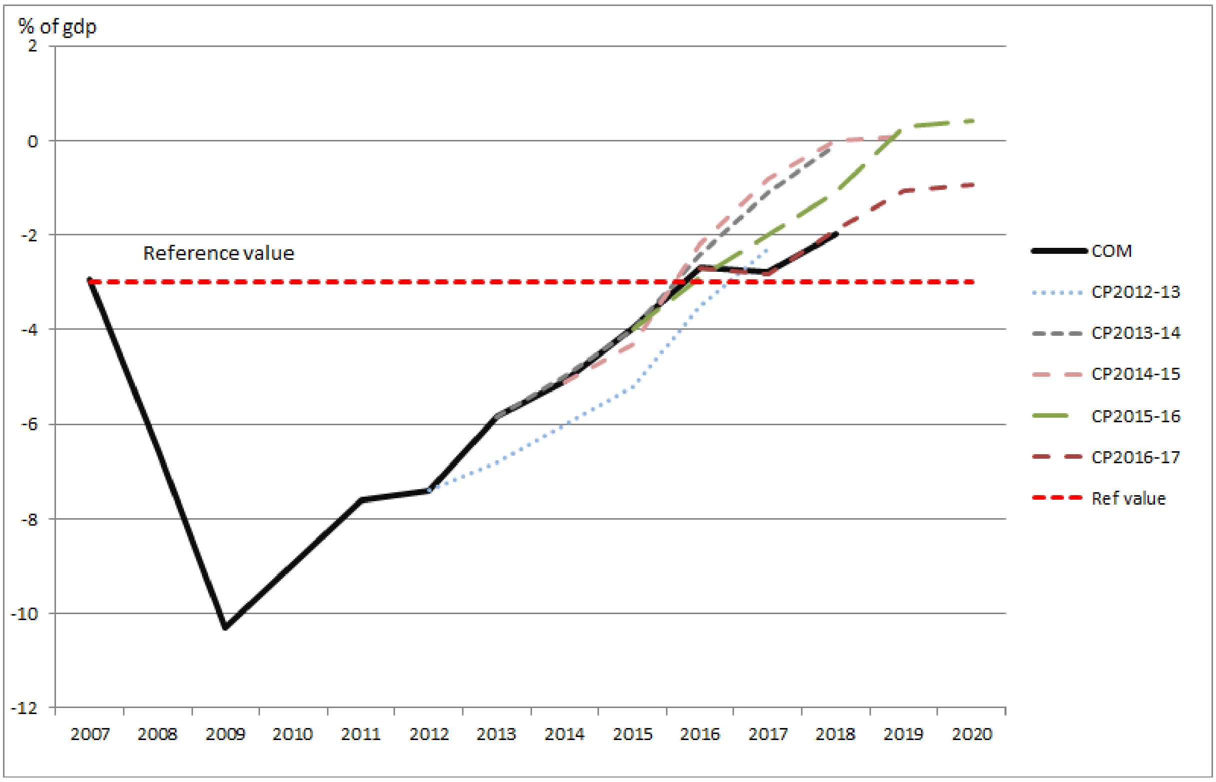
Convergence Programme (CP); Commission 2017 spring forecasts (COM); Commission calculations.

Figure 1 highlights variation in the projected path of the general government deficit in the convergence programmes published in recent years. There was a significant positive revision to the fiscal outlook between the 2012-13 and 2013-14 convergence programmes, reflecting a better-than-expected outurn in 2013-14. The outlook contained in the 2014-15 convergence programme was broadly in line with the previous year's publication and the near-term outlook turned out to be similar to the deficit outturn. Deficit projections were revised upwards in 2015-16, with a balanced budget expected to be achieved one year later than in the previous publication. While there has been a significant improvement in the near-term outlook in the 2016-17 convergence programme, it is no longer envisaged that the UK will achieve a

[1] The aggregates for revenues and expenditures for the CP and COM are not fully comparable because of accounting differences.

balanced budget in nominal terms over the projection horizon. This reflects the slower pace of fiscal consolidation outlined in the 2016 Autumn Statement, in line with a change to the government's fiscal objective.

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



Source: Commission 2017 spring forecast, convergence programmes

3.3. Measures underpinning the programme

The projected improvement in the fiscal balance underpinning the convergence programme is mainly driven by a significant decline in the expenditure ratio between 2016-17 and 2020-21, from 39.1% to 37.6% of GDP, after a small increase to 39.3% of GDP in 2017-18. Revenues are also expected to increase somewhat over this period, from 36.4% of GDP in 2016-17 to 36.7% of GDP in 2020-21.

The envisaged adjustment path is in general sufficiently supported by measures in the convergence programme. The fiscal adjustment is driven mainly by progressive reductions in the budgets of government departments and in working age social transfers, as set out in the multi-year Spending Review published in November 2015. The table below sets out further measures announced since the publication of the 2015-16 convergence programme. There is no significant impact of planned one-off measures in any of the years covered by the convergence programme. The convergence programme presents plausible estimates of the measures' budgetary impact. However, for measures aimed at reducing revenue losses due to tax avoidance, only half of the impact estimated in the convergence programme is reflected in the Commission 2017 spring forecast because of the high level of uncertainty associated with such measures. After the adoption of the 2017 Spring Budget, which included a relatively limited number of new measures, the United Kingdom authorities decided not to proceed with a revenue measure related to an increase of National Insurance Contributions (NICs) for self-employed workers. As such, this measure is not included in the Commission 2017 spring forecast. This measure would have reduced the deficit by GBP 325 million (0.02% of GDP) in 2018-19 and GBP 645 million (0.03% of GDP) in 2019-20. It has currently not been replaced with specific alternative deficit-reducing measures, although the government has committed to do so in the forthcoming budget announcement in autumn 2017[2]. The convergence programme assumes that measures will be adopted to fund the cancellation of the NICs measure.

Main budgetary measures (in % of GDP)

Revenue	Expenditure
2016-17	
2017-18	
	• Social care: additional funding (+0.1% of GDP) • National Productivity Investment Fund: Housing (+0.1% of GDP)
2018-19	
	• Personal Independence Payment: non-implementation of Budget 2016 measure (+0.1% of GDP) • National Productivity Investment Fund: Housing (+0.1% of GDP)
2019-20	
	• Personal Independence Payment: non-implementation of Budget 2016 measure (+0.1% of GDP) • National Productivity Investment Fund: Housing (+0.1% of GDP) • National Productivity Investment Fund: Research and Development (+0.1% of GDP)
Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure. Only measures with an impact of at least 0.1% of GDP are included.	

[2] The UK will change its budget calendar as of 2017, with the main budgetary announcement to take place in the autumn and complemented by an update the following spring. As such, there will be two budgets announced in 2017.

3.4. Debt developments

According to the convergence programme, the government debt-to-GDP ratio is expected to remain at around the same level as in 2016-17 (88%) for the next two years before declining over the remainder of the forecast horizon to stand at just below 85% in 2020-21. Over this period, the forecast reduction in the ratio is mainly driven by a falling primary balance, particularly in 2019-20 and 2020-21. Economic growth and inflation are also expected to contribute to a falling debt-to-GDP ratio during this period, while interest expenditure is expected to put upward pressure on the ratio. The Commission 2017 spring forecast expects the debt-to-GDP ratio to fall in 2017-18 and 2018-19.

Table 3: Debt developments

(% of GDP)	Average 2011-2016	2016-17	2017-18		2018-19		2019-20	2020-21
		COM	COM	CP	COM	CP	CP	CP
Gross debt ratio[1]	**85.7**	**88.0**	**87.1**	**87.7**	**86.1**	**87.7**	**86.5**	**84.8**
Change in the ratio	2.3	0.4	-0.9	-0.3	-1.0	0.0	-1.2	-1.7
Contributions[2] *:*								
1. Primary balance	**3.2**	**0.2**	**0.3**	**0.1**	**-0.5**	**-0.6**	**-1.4**	**-1.4**
2. "Snow-ball" effect	**0.0**	**-0.9**	**-0.4**	**-0.4**	**-0.3**	**-0.1**	**-0.4**	**-0.8**
Of which:								
Interest expenditure	2.7	2.4	2.5	2.8	2.4	2.5	2.4	2.3
Growth effect	-1.6	-1.7	-1.5	-1.7	-1.2	-1.3	-1.5	-1.6
Inflation effect	-1.2	-1.6	-1.4	-1.5	-1.5	-1.3	-1.4	-1.5
3. Stock-flow adjustment	**-0.9**	**1.1**	**-0.8**	**0.1**	**-0.2**	**0.8**	**0.6**	**0.5**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

Notes:

[1] End of period.

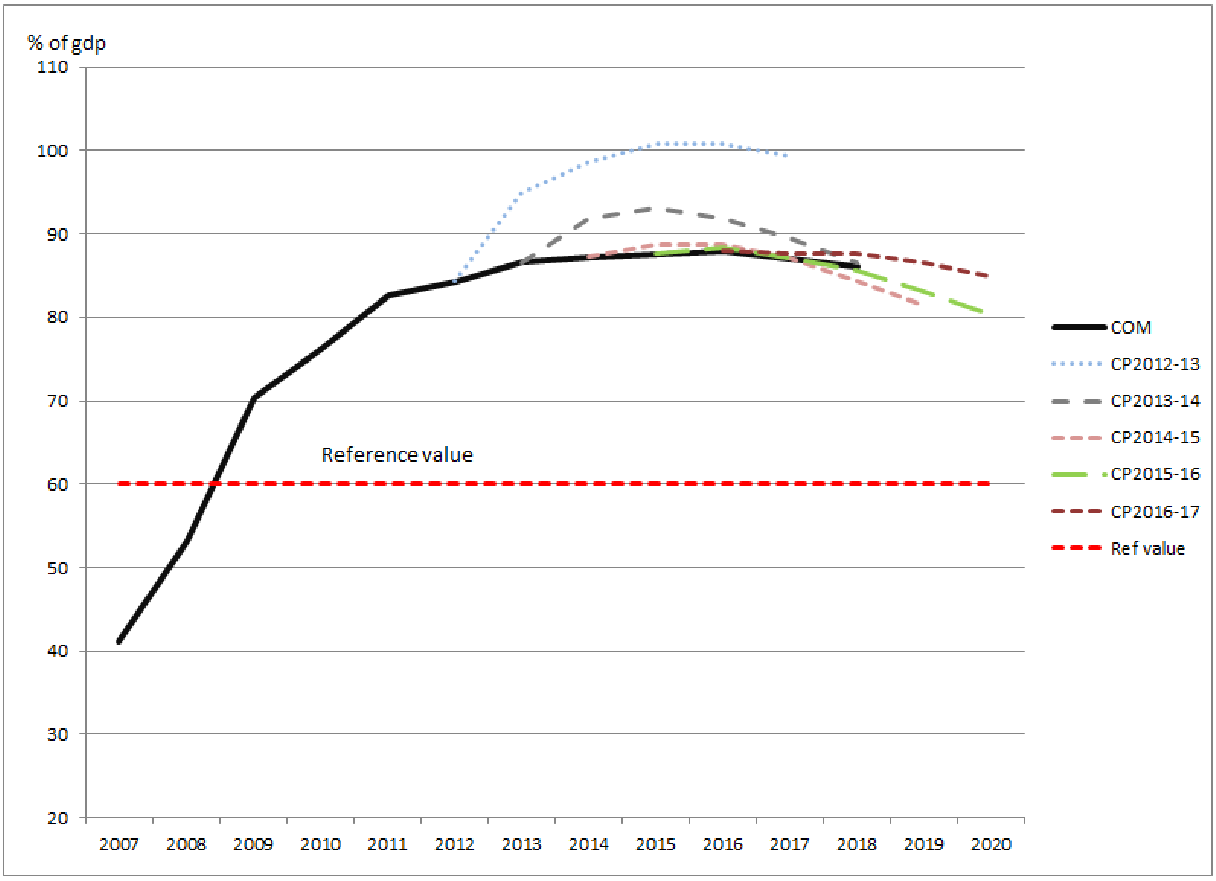
[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets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

Source :

Commission 2017 spring forecast (COM); Convergence Programme (CP), Comission calculations.

Figure 2 shows that government debt projections have been revised down quite significantly since the 2012-13 and 2013-14 convergence programmes. The projections contained in subsequent convergence programmes remained broadly stable but there have been upward revisions in the 2016-17 convergence programme. This reflects changes to the outlook for the general government deficit, with the government no longer targeting a balanced budget in nominal terms by 2020-21. The Commission forecasts a broadly similar trajectory for debt. Financial sector interventions raised debt levels following the financial crisis and ongoing disposals of these government holdings are expected to give rise to non-deficit impacting revenues in the coming years, thus potentially resulting in further reductions of the debt-to-GDP ratio.

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



Source: Commission 2017 spring forecast; stability and convergence programmes

3.5. Risk assessment

There are a number of risks to the path of deficit reduction set out in the convergence programme. Firstly, as discussed in Section 2, the economic growth assumptions underlying the deficit projections are favourable. Medium-term growth projections for the UK are subject to a particularly high degree of uncertainty, in the context of its ongoing withdrawal from the EU, and there are downside risks to the projections contained in the convergence programme. Secondly, given the large stock of government debt, unexpected changes in the factors that influence interest payments, notably inflation, pose a risk to the outlook for the general government deficit. While debt service costs are somewhat insulated from short-term volatility in market interest rates, given the long average duration of the debt stock, interest payments on inflation-linked bonds are highly sensitive to changes in the retail price index. A sustained period of high inflation could, therefore, put upward pressure on interest expenditure. Similarly, higher-than-expected inflation would put upward pressure on some welfare payments and other inflation-indexed expenditure items. Finally, wage growth has been consistently lower-than-expected in recent years, leading to lower-than-expected revenues from personal income tax. The composition of job creation in the UK in recent years, which has been concentrated in lower-income jobs and self employment, has also contributed to lower-than-expected revenues. A prolongation of these trends poses a further upside risk to the deficit projections contained in the convergence programme.

The tax projections in the programme are broadly plausible, although a number of recent measures relate to increased revenues from combatting tax evasion and avoidance. Given the uncertainty associated with such measures, this represents a further risk to the fiscal objectives in the convergence programme. As discussed above, they have not been fully taken on board in the Commission 2017 spring forecast.

There have been no new control mechanisms put in place to manage public expenditure. However, the United Kingdom has a good track record in controlling expenditure. Departmental budgets, which account for the bulk of discretionary expenditure, are fixed and set three years in advance. Welfare payments, especially unemployment-related benefits, are more cyclical. The convergence programme reflects multi-year plans for progressive reductions to expenditure set out in the Spending Review and Autumn Statement in November 2015. These plans rely heavily on achieving savings from greater public sector efficiency, which may not fully materialise.

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

Box 1. Council recommendations addressed to the United Kingdom

- On 19 June 2015, the Council recommended the United Kingdom under Art. 126(7) of the Treaty to correct its excessive deficit by 2016-17. To this end, the United Kingdom should "reach a headline deficit of 4.1 % of GDP in 2015-2016 and 2.7 % of GDP in 2016-2017, which should be consistent with delivering an improvement in the structural balance of 0.5 % of GDP in 2015-2016 and 1.1 % of GDP in 2016-2017, based on the Commission's updated 2015 spring forecast".
- On 12 July 2016, the Council addressed recommendations to the United Kingdom in the context of the European Semester. In particular, in the area of public finances, the Council recommended that the United Kingdom take action in 2016 and 2017 to endeavour to correct the excessive deficit in a durable manner in 2016-17. Following the correction of the excessive deficit, the Council recommended the United Kingdom to achieve a fiscal adjustment of 0.6% of GDP in 2017-18 towards the minimum medium-term budgetary objective.

4.1. Compliance with EDP recommendations (in EDP years)

According to the convergence programme, the headline deficit is expected to have been brought below the 3% of GDP reference value by the recommended deadline, to 2.7% of GDP in 2016-17.

Based on the Commission 2017 spring forecast, the deficit is expected to have fallen to 2.7% of GDP in 2016-17, in line with the target recommended by the Council on 19 June 2015. The projected improvement in the structural balance is 1.2% of GDP, slightly higher than recommended. As the United Kingdom is expected to be compliant with both the recommended targets for the headline balance and the improvement in the structural balance in 2016-17, no careful analysis is needed.

Table 4: Compliance with the requirements of the corrective arm

(% of GDP)	2016-17	2017-18		2018-19	
	COM	CP	COM	CP	COM
Headline balance					
Headline budget balance	-2.7	-2.8	-2.8	-1.9	-2.0
EDP requirement on the budget balance	-2.7				
Fiscal effort - change in the structural balance					
Change in the structural balance[1]	1.2	-0.3	-0.1	1.1	0.9
Cumulative change[2]	1.9				
Required change from the EDP recommendation	1.1				
Cumulative required change from the EDP recommendation	1.6				
Fiscal effort - adjusted change in the structural balance					
Adjusted change in the structural balance[3]	1.1	-		-	
of which: *correction due to change in potential GDP estimation (α)*	0.0	-		-	
correction due to revenue windfalls/shortfalls (β)	0.1	-		-	
Cumulative adjusted change [2]	1.4	-		-	
Required change from the EDP recommendation	1.1				
Cumulative required change from the EDP recommendation	1.6				
Fiscal effort - calculated on the basis of measures (bottom-up approach)					
Fiscal effort (bottom-up)[4]	0.0	-		-	
Cumulative fiscal effort (bottom-up)[2]	0.0	-		-	
Requirement from the EDP recommendation	0.0				
Cumulative requirement from the EDP recommendation	0.0				

Notes

[1] Structural balance = cyclically-adjusted government balance excluding one-off measures. Structural balance based on programme is recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology. Change compared to *t-1* .

[2] Cumulated since the latest EDP recommendation.

3 Change in the structural balance corrected for unanticipated revenue windfalls/shortfalls and changes in potential growth compared to the scenario underpinning the EDP recommendations.

[4] The estimated budgetary impact of the additional fiscal effort delivered on the basis of the discretionary revenue measures and the expenditure developments under the control of the government between the baseline scenario underpinning the EDP recommendation and the current forecast.

Source :

Convergence Programme (CP); Commission 2017 spring forecasts (COM); Commission calculations.

4.2. Compliance with the debt criterion

If the EDP is abrogated in 2016-17, government debt will nevertheless remain above the 60% of GDP Treaty reference value, according to both the convergence programme and the Commission 2017 spring forecast. The United Kingdom will, therefore, be subject to the

Minimum Linear Structural Adjustment (MLSA) during the three-year transition period following the abrogation[3].

According to the Commission 2017 spring forecast, the structural adjustment in 2017-18 (-0.1% of GDP) is lower than the required MLSA (0.4% of GDP). However, the UK is expected to make progress towards compliance with the debt criterion in 2018-19 as the structural adjustment (0.9% of GDP) is above the required MLSA (0.7% of GDP). The recalculated structural effort underpinning the convergence programme points to a similar pattern, with the adjustment being below the required MLSA in 2017-18 but above it in 2018-19.

Table 5. Compliance with the debt criterion

	2017-18		**2018-19**	
	CP	**COM**	**CP**	**COM**
Gross debt ratio	**87.7**	**87.1**	**87.7**	**86.1**
Gap to the debt benchmark [1,2]				
Structural adjustment [3]	-0.3	-0.1	1.1	0.9
To be compared to:				
Required adjustment [4]	0.6	0.4	0.9	0.7

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); Convergence Programme (CP), Comission calculations.

[3] Following the abrogation of the EDP, the UK would be subject to the preventive arm of the SGP and, as the debt ratio exceeds 60% of GDP, it should ensure sufficient progress towards compliance with the debt criterion during a three-year transition period. Over this period, the structural balance is expected to adjust in a way that ensures that the debt reduction benchmark is met at the end of the transition period. This adjustment is known as the MLSA.

4.3. Adjustment towards the MTO

If the EDP is abrogated in 2016-17 (based on outturn budgetary data validated by Eurostat), the United Kingdom will become subject to the preventive arm of the SGP in 2017-18.

In 2017-18, the recalculated structural balance from the convergence programme is projected to deteriorate by 0.3% of GDP, against a recommended improvement of 0.6% of GDP towards the minimum MTO (a structural balance of -0.75% of GDP)[4], pointing to a significant deviation. The growth rate of government expenditure, net of discretionary revenue measures, is projected to be greater than the expenditure benchmark reference rate by a margin of 0.6% of GDP, also pointing to a significant deviation. This calls for an overall assessment. The change in the recalculated structural balance appears to be negatively impacted by a projected increase in interest expenditure in 2017-18. Taking this into consideration, the expenditure benchmark appears to better reflect the underlying fiscal effort. At the same time, the expenditure benchmark seems to provide a more negative reading of the fiscal effort due to the use of a medium-term potential growth rate that is lower than the one underpinning the calcuation of the structural balance. Correcting for this result, the expenditure benchmark indicates a risk of some deviation. As such, the overall assessment points to a risk of some deviation from the recommended adjustment path towards the minimum MTO in 2017-18.

Based on the Commission 2017 spring forecast, the structural balance is expected to deteriorate by 0.1% of GDP in 2017-18, less than the recommended adjustment and pointing to a significant deviation of 0.7% of GDP. The growth rate of government expenditure, net of discretionary revenue measures, is projected to be greater than the expenditure benchmark reference rate by a margin of 0.4% of GDP, pointing to some deviation. This calls for an overall assessment. The structural balance in 2017-18 appears to be negatively impacted by revenue shortfalls, estimated at 0.2% of GDP and related to the reversal of windfall revenues received in the previous year. These windfalls arose from a number of sources, including additional revenues from dividend taxation ahead of an increase in the dividend tax rate in April 2017, as well as higher-than-expected corporation taxation receipts that are not expected to be repeated. Furthermore, the lower growth rate of the GDP deflator underpinning the structural balance leads to a more negative reading of the fiscal effort compared to the expenditure benchmark pillar. Taking these factors into consideration, the expenditure benchmark seems to better reflect the fiscal effort and, as such, the overall assessment points to a risk of some deviation from the recommended adjustment path towards the minimum MTO in 2017-18.

In 2018-19, based on the convergence programme both pillars point to compliance with the recommended adjustment path. The recalculated structural balance is projected to improve by 1.1% of GDP, more than the recommended adjustment of 0.6% of GDP towards the minium MTO. The growth rate of government expenditure, net of discretionary revenue measures, is projected to be in line with the expenditure benchmark reference rate. The conclusion based on two years points to a risk of significant deviation. However, taking into account the conclusion of the overall assessment for 2017-18, based on the expenditure benchmark

[4] While Member States normally set their MTOs in their Stability and convergence programmes, the Commission estimates a minimum MTO according to a commonly agreed methodology, taking into account a safety margin with respect to the 3% of GDP deficit limit, along with the need to ensure debt sustainability or rapid progress towards sustainability. The UK, however, has not set an MTO in its convergence programme. See: http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip021_en.pdf.

corrected for differences in potential growth, there appears to be a risk of some deviation from the recommended adjustment path towards the minimum MTO in 2018-19 based on the two year average.

Based on the Commission 2017 spring forecast, the structural balance is project to improve by 0.9% of GDP in 2018-19, more than the recommended adjustment. The growth rate of government expenditure, net of discretionary revenue measures, is projected to be less than the expenditure benchmark reference rate by a margin of 0.2% of GDP. Therefore, in the Commission 2017 spring forecast, both indicators also point to compliance with the recommended adjustment path towards the minimum MTO in 2018-19. However, the assessment based on two years points to a risk of some deviation from the recommended adjustment path towards the minimum MTO in 2018-19 as the deviation in 2017-18 is projected to be only partly compensated for in 2018-19.

These assessments are based on the matrix of preventive arm requirements agreed with the Council, which takes into account (i) the cyclical position of the economy, as assessed on the basis of output gap estimates using the commonly agreed methodology as well as the projected real GDP growth rate, and (ii) debt sustainability considerations. Given the current cyclical conditions and the uncertainty surrounding them, it is important that the fiscal stance strikes the right balance between both safeguarding the ongoing recovery and ensuring the sustainability of the United Kingdom's public finances. The Commission noted that, in carrying out its future assessments, it stands ready to use its margin of appreciation in cases where the impact of large fiscal adjustment on growth and employment is particularly significant. In that context, it will make use of any updated information regarding the projected position in the economic cycle of each Member State and work closely with the Council to that effect.

Table 6: Compliance with the requirements under the preventive arm

(% of GDP)	2016-17	2017-18		2018-19	
Initial position[1]					
Medium-term objective (MTO)	-	-0.75		-0.75	
Structural balance[2] (COM)	-3.0	-3.1		-2.2	
Structural balance based on freezing (COM)	-3.0	-3.1		-	
Position vis-a -vis the MTO[3]	-	Not at MTO		Not at MTO	
(% of GDP)	**2016-17**	**2017-18**		**2018-19**	
	COM	**CP**	**COM**	**CP**	**COM**
Structural balance pillar					
Required adjustment[4]	n.a. in EDP	0.6		0.6	
Required adjustment corrected[5]		0.6		0.6	
Change in structural balance[6]		-0.3	-0.1	1.1	0.9
One-year deviation from the required adjustment [7]		-0.9	-0.7	0.5	0.3
Two-year average deviation from the required adjustment [7]		n.a		-0.2	-0.2
Expenditure benchmark pillar					
Applicable reference rate[8]	n.a. in EDP	-0.1		1.8	
One-year deviation adjusted for one-offs[9]		-0.6	-0.4	0.0	0.2
Two-year deviation adjusted for one-offs[9]		n.a		-0.3	-0.1
PER MEMORIAM: One-year deviation [10]		-0.6	-0.4	0.0	0.2
PER MEMORIAM: Two-year average deviation [10]		n.a		-0.3	-0.1
Conclusion					
Conclusion over one year	n.a. in EDP	Significant deviation	Overall assessment	Compliance	Compliance
Conclusion over two years		n.a.		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 :

Convergence Programme (CP); 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 the UK, the plausibility tool indicates that the output gap estimated on the basis of the common methodology may be subject to a large degree of uncertainty. In particular, the plausibility tool's central estimate indicates an output gap of -0.3% of GDP in 2016, while the common methodology estimates a positive output gap of 0.5% of GDP. The discrepancy reflects uncertainty over the degree to which potential growth has recovered in the years since the financial crisis. Estimates obtained through the common methodology suggest a weak recovery in potential output, leading to the estimated positive output gap. The headline unemployment rate is low, at 4.7%, also indicating limited slack in the economy. However, other indicators, such as relatively weak wage growth, suggest some available slack. Indeed, national forecasting institutions, such as the OBR, estimate slightly smaller but positive output gaps for the UK.

In the light of the uncertainty surrounding the estimation of the level of the output gap for the UK, 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

The United Kingdom does not appear to face fiscal sustainability risks in the short run according to the S0 indicator, which captures the 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 fiscal side of the economy poses potential challenges.

Based on the Commission 2017 spring forecast and a no-fiscal policy change scenario beyond the forecasts, government debt (at 89.3% of GDP in 2016) is expected to increase to 91.2% of GDP in 2027, thus remaining above the Treaty threshold of 60% of GDP. While government debt is projected to have peaked in 2016 and to fall in the coming years, it is expected to start rising again from 2022. This highlights the high debt sustainability risks faced by the UK in the medium term. Full implementation of the convergence programme would, however, put debt on a decreasing path from 2018, although it would still be projected to remain above 60% of GDP in 2027.

The S1 indicator currently stands at 3.5 pps of GDP, pointing to a high level of risk to fiscal sustainability in the medium term. This is primarily related to the current high level of government debt (contributing 2.2 pps of GDP to the indicator) but also to projected ageing costs (0.9 pps of GDP) and the unfavourable initial budgetary position (0.5 pps of GDP). Full implementation of the fiscal consolidation plans outlined in the convergence programme would reduce the S1 indicator to 1.9 pps of GDP, this reducing the level of risk to fiscal sustainability from high to medium.

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 at 3.1 pps. of GDP, corresponding to a medium level of risk. This is primarily related to the projected costs of ageing (2.3 pps of GDP, corresponding in particular to healthcare costs and pensions) and the initial budgetary position (0.9 pps of GDP). Full implementation of the convergence programme would bring the S2 indicator down to 1.3 pps of GDP, leading to low long-term risks to sustainability.

Table 7: Sustainability indicators

Time horizon	No-policy Change Scenario		Stability / Convergence Programme Scenario	
Short Term	**LOW risk**			
S0 indicator [1]	0.4			
Fiscal subindex	0.5	HIGH risk		
Financial & competitiveness subindex	0.3	LOW risk		
Medium Term	**HIGH risk**			
DSA [2]	HIGH risk			
S1 indicator [3]	3.5	HIGH risk	1.9	MEDIUM risk
of which				
Initial Budgetary Position	0.5		-1.2	
Debt Requirement	2.2		2.4	
Cost of Ageing	0.9		0.8	
of which				
Pensions	0.3		0.4	
Health-care	0.3		0.2	
Long-term care	0.1		0.1	
Other	0.2		0.1	
Long Term	**MEDIUM risk**		**LOW risk**	
S2 indicator [4]	3.1		1.3	
of which				
Initial Budgetary Position	0.9		-0.7	
Cost of Ageing	2.3		2.0	
of which				
Pensions	0.9		0.9	
Health-care	1.0		0.9	
Long-term care	0.3		0.3	
Other	0.1		0.0	

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

The government updated the headline fiscal objective contained in the *Charter for Budget Responsibility* in November 2016, at the same time as the 2016 Autumn Statement was published. The updated objective is to "return the public finances to balance at the earliest possible date in the next Parliament", compared to the previous target of a surplus on PSNB[5] by the end of 2019-20. According the convergence programme, PSNB is expected to have fallen to 2.6% of GDP in 2016-17, from 3.8% in 2015-16[6]. The updated objective is complemented by three supplementary targets, namely: 1) a structural deficit below 2% by 2020-21; 2) public sector net debt to fall as a percentage of GDP by 2020-21; and 3) that total spending on a selection of welfare benefits (excluding the state pension and the most cyclical benefits) be below a target nominal level (i.e. a "welfare cap") by 2021-22.

The macroeconomic forecasts underpinning the convergence programme have been prepared by the OBR, which is also required by the *Charter for Budget Responsibility* to judge whether the government has a greater than 50 per cent chance of meting its fiscal targets under current policy. The most recent OBR assessment, included in its March 2017 Economic and Fiscal Outlook, shows that all three of the fiscal targets are expected to be met. As the OBR's forecast only extends to 2021-22, however, it cannot assess the government's headline fiscal objective. According to the OBR, a simple extrapolation of the fiscal deficit beyond its forecast horizon, based on the projected consolidation effort in 2021-22, would imply that it reaches balance in 2025-26, i.e. what would have been the final year of the next Parliament. According to the OBR's 2017 Fiscal Sustainability Report (FSR), however, there is likely to be upward pressure on government expenditure during this period due to population ageing and other non-demographic factors. Furthermore, in contrast to the simple extrapolation exercise, the central scenario of the FSR assumes that personal income tax receipts cannot continually rise as a percentage of GDP and that the incomes of working-age welfare recipients cannot continually decline relative to the rest of the population. In light of these assumptions, the FSR projects a deficit of 1.8% of GDP in 2025-26.

Based on the information provided in the convergence programme, the forecast fiscal performance in the United Kingdom appears to broadly comply with the requirements of the applicable national numerical fiscal rules.

7. CONCLUSIONS

The United Kingdom is expected to have corrected its excessive deficit by the 2016-17 deadline set by the Council. Based on the Commission 2017 spring forecast, the headline

[5] The United Kingdom authorities follow different definitions of national debt and deficit targets from those in the Maastricht Treaty. PSNB, the national deficit target, refers to the cyclically-adjusted current budget balance, excluding financial interventions, whereas the EDP deficit is defined as general government net borrowing, including investment expenditure and interest. PSND, the national debt target, excludes financial interventions. It is defined in net terms and includes the debt of non-financial public corporations but excludes that of public sector banking groups. The EDP definition refers to general government gross debt, thereby excluding both the debt of non-financial public corporations and public sector banks.

[6] The current objective was based on the assumption that a general election would be held in 2020 and a new Parliament formed in that year. Since then, the government has announced that a general election will take place in June 2017, which implies that the subsequent general election will take place in 2022.

deficit is expected to have fallen to 2.7% of GDP in 2016-17, in line with the recommended target. The fiscal effort is also expected to have been delivered as recommended.

If the EDP is abrogated (based on 2016-17 outturn budgetary data validated by Eurostat), the United Kingdom will be subject to the preventive arm of the SGP in 2017-18.

Based on the convergence report, the United Kingdom appears at a risk of some deviation from the recommended adjustment path towards the minimum MTO in 2017-18, and over the two years 2017-18 and 2018-19 taken together.

Based on the Commission 2017 spring forecast, the United Kingdom appears at a risk of some deviation from the recommended adjustment path towards the minimum MTO in 2017-18, and over the two years 2017-18 and 2018-19 taken together.

Based on both the convergence report and the Commission 2017 spring forecast, the structural adjustment in 2017-18 is lower than the MLSA, indicating that the UK will not progress towards compliance with the debt criterion. However, the structural adjustment in 2018-19 is above the required MLSA in both the convergence programme and the Commission 2017 spring forecast.

8. ANNEXES

Table I. Macroeconomic indicators

	1999-2003	2004-2008	2009-2013	2014	2015	2016	2017	2018
Core indicators								
GDP growth rate	3.1	2.0	0.5	3.1	2.2	1.8	1.8	1.3
Output gap [1]	0.7	1.3	-3.4	-0.4	0.2	0.5	0.7	0.4
HICP (annual % change)	1.2	2.3	3.1	1.5	0.0	0.7	2.6	2.6
Domestic demand (annual % change) [2]	3.7	1.9	0.3	3.4	1.9	1.5	1.4	0.7
Unemployment rate (% of labour force) [3]	5.3	5.2	7.8	6.1	5.3	4.8	5.0	5.4
Gross fixed capital formation (% of GDP)	17.9	17.5	15.8	16.6	16.9	16.7	16.5	16.4
Gross national saving (% of GDP)	16.3	15.6	12.8	12.7	13.1	13.5	13.7	14.3
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.5**	**-3.4**	**-8.2**	**-5.7**	**-4.3**	**-3.0**	**-3.0**	**-2.3**
Gross debt	**36.5**	**42.4**	**78.7**	**88.1**	**89.0**	**89.3**	**88.6**	**87.9**
Net financial assets	**-28.8**	**-33.1**	**-63.2**	**-81.1**	**-82.4**	**-92.8**	**n.a**	**n.a**
Total revenue	36.5	38.4	38.5	38.1	38.5	39.1	38.8	39.0
Total expenditure	37.0	41.8	46.7	43.7	42.9	42.1	41.8	41.3
of which: Interest	2.2	2.0	2.7	2.7	2.3	2.5	2.5	2.5
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.1**	**2.0**	**2.7**	**0.9**	**0.3**	**0.9**	**1.9**	**2.6**
Net financial assets; non-financial corporations	**-168.3**	**-149.2**	**-155.9**	**-178.0**	**-160.0**	**-158.9**	**n.a**	**n.a**
Net financial assets; financial corporations	**-33.0**	**-11.2**	**-1.5**	**-5.4**	**7.1**	**32.4**	**n.a**	**n.a**
Gross capital formation	11.5	9.8	8.7	9.8	9.7	9.5	9.0	8.6
Gross operating surplus	20.5	21.5	20.9	21.6	21.3	20.9	21.6	22.1
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**1.7**	**-0.8**	**2.6**	**0.0**	**-0.2**	**-1.2**	**-2.1**	**-2.7**
Net financial assets	**221.0**	**188.1**	**208.8**	**246.8**	**230.7**	**243.4**	**n.a**	**n.a**
Gross wages and salaries	43.3	42.3	42.2	40.7	41.2	41.0	41.0	40.9
Net property income	11.6	9.6	9.4	8.6	8.4	8.1	8.7	9.1
Current transfers received	20.1	20.1	23.4	21.9	21.9	21.6	21.5	21.3
Gross saving	6.4	4.5	6.4	4.7	4.5	3.5	2.9	2.6
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.0**	**-2.3**	**-3.1**	**-4.7**	**-4.3**	**-4.5**	**-3.9**	**-3.2**
Net financial assets	**9.3**	**5.7**	**12.3**	**18.1**	**5.0**	**-23.7**	**n.a**	**n.a**
Net exports of goods and services	-2.2	-2.7	-2.2	-2.0	-1.6	-1.9	-2.2	-1.9
Net primary income from the rest of the world	1.0	1.3	0.4	-1.3	-1.4	-1.2	-0.5	-0.1
Net capital transactions	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Tradable sector	39.7	36.2	35.1	35.2	34.7	34.7	n.a	n.a
Non tradable sector	50.1	53.9	54.6	53.9	54.5	54.4	n.a	n.a
of which: Building and construction sector	5.4	5.9	5.2	5.3	5.5	5.5	n.a	n.a
Real effective exchange rate (index, 2000=100)	113.4	118.4	99.5	106.0	113.4	101.8	96.8	97.2
Terms of trade goods and services (index, 2000=100)	100.5	100.6	99.7	103.1	103.8	103.9	101.9	101.1
Market performance of exports (index, 2000=100)	106.7	104.2	101.0	98.4	98.4	96.8	96.4	95.1

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