IN-DEPTH ANALYSIS

European Parliament

Thematic overview: Member States whose 2018 Draft Budgetary Plans are "at risk of non-compliance" with the Stability and Growth Pact

This briefing gives an overview of recent European Commission (COM) assessments of the budgetary situation of six Member States (Belgium, France, Italy, Austria, Portugal and Slovenia) whose 2018 Draft Budgetary Plans (DBPs) are considered to be "at risk of non-compliance" with their obligations under the Stability and Growth Pact (SGP). This briefing will be updated as further assessments by the COM become available during spring 2018.

The countries at risk of non-compliance

The briefing contains - in the overleaf table - a detailed overview on the COM opinions on the 2018 DBPs (submitted by Euro Area Member States in accordance with EU Regulation 473/2013) of the Member States assesed to be "at risk of non-compliance" with their nominal and structural targets (concerning public deficit and debt) as recommended by the Council under the SGP.

- On 22 November 2017, the COM concluded as part of its opinions on the 2018 DPBs that six Euro Area Member States are at "*risk of non-compliance*" with their current obligations under the SGP, namely **France** in the corrective arm and **Belgium, Italy, Austria, Portugal and Slovenia** in the preventive arm of the SGP. This constitutes an improvement compared to the opinions on the final 2017 DBPs, which concluded that seven Euro Area Member States where at "*risk of non-compliance*". This decreasing number of countries at "*risk of non compliance*" is the result of the following development: three Member States have left the category "risk of non-compliance" (**Cyprus, Lithuania** and **Finland**), while two countries (**France** and **Austria**) have become part of it.
- For **Belgium and Italy**, the COM opinions judge that the **debt reduction benchmark** will be breached based on current projections; they conclude the same for **France**, in case France moves from the corrective to the preventive arm of the SGP in 2018 and would thereby become subject to the transitional debt rule as of 2018.
- In a letter of 22 November 2017 to the Italian authorities, the COM informed about its intention to reassess Italy's compliance with the debt reduction benchmark in spring 2018. The letter states *inter alia* that "*The adoption of the 2018 budget with no watering down on the key*

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provisions will be crucial, as will its subsequent strict implementation to deliver a structural effort of at least 0,3 % of GDP. We would also like to underline the importance of avoiding backtracking on the important fiscal structural reforms, notably as regards pensions, which underpin the long-term sustainability of Italy's debt."

- When finalising the opinions, the COM highlighted in letters (of 27 October 2017) to **Belgium, France, Italy and Portugal the potential non-compliance ("significant deviations") of their DBPs** with the requirements under the SGP and asked the respective governments to submit further information so that the COM can use in the in its final opinions on the DBPs. The replies of 30/31 October 2017 (Belgium, France, Italy and Portugal) focused on fiscal measures and structural reforms which were not included in the calculations of the structural balance by the Commission ("no policy change scenario") or on methodological issues (notably Italy). However, as seen above, they did not change the overall COM compliance assessments on these countries. For an overview of the structural balance positions (in relation to the current Council recommendations) of all Member States see table overleaf and a separate EGOV note.
- On 4 December 2017, the **Eurogroup** took note of the COM assessments of the 2018 DBPs. It invited tha Member States at "risk of non-compliance" to consider in a timely manner the necessary additional measures to address the risks identified by the COM and to ensure that their 2018 budget will be compliant with SGP provisions. The Eurogroup noted that *"the limited structural fiscal adjustment expected in 2018 in some Member States is worrying, in particular when coupled with high sustainability risks. The Eurogroup recalls in this context that the focus on debt reduction is an integral part of the SGP and calls upon the COM and the Council to apply the SGP in full."*

The methodological framework

The COM opinions on the 2018 DBPs include assessments of the fiscal effort taken by the concerned Member States, made on the basis of a common methodological framework which was specified in November 2016 both as regards the Excessive Deficit Procedure (the previous update/specification was done in June 2014) and the preventive arm of the SGP, by putting a stronger focus on the expenditure benchmark. The Council stated in this respect in December 2016:

"*On 29 November 2016, the Economic and Financial Committee reached agreement on how to simplify the assessment of compliance with the pact's rules. The agreement covers both the preventive and corrective arms of the pact as relates to the assessment of member states' fiscal policies and outcomes. No change to the legislation underlying the pact is envisaged.* ***Stronger focus on an expenditure-based indicator is envisaged for setting and assessing fiscal policies, reducing complexity in the fiscal surveillance framework. The indicator involves setting an upper limit for the growth rate of government expenditure.*** *This is considered an operational and easy-to-measure target that will guide member states in the preparation and monitoring of their budgets.* ***The structural balance indicator will remain an essential part of the fiscal surveillance framework****."*

The updated framework includes specifications on the flexibility within the existing rules of the SGP (via so-called investment and structural reform clauses and via a matrix specifying economic good and bad times within the preventive arm of the Pact), endorsed by the ECOFIN Council in February 2016. Furthermore, it specifies *inter alia* the "top down" and "bottom up" approaches used in the assessment of effective action by the COM. In addition, the Council agreed in October 2016 on two further methodological steps relating to the estimation of potential output and output gaps.

In addition to the opinions on the DBPs, the COM has published related Staff Working Documents, which include more details as regards the methodology used.

For further information on the rules of the SGP, see SGP Vademecum of March 2017 and the Report on Public Finances in the EMU of January 2018. The main legal provisions relating to the implementation of the SGP are also available in the Annex of this briefing.

The relevant Council recommendations referred to in the overleaf table are in the case of the preventive arm of the SGP the fiscal recommendations of the 2017 Country Specific Recommendations (CSRs) adopted by the Council under the European Semester. In the case of the corrective arm, the relevant Council recommendations are the latest decisions taken by the Council pertaining to the corresponding Excessive Deficit Procedure (EDP).

The COM opinions on the DBPs focus on *compliance* with the SGP and the recommendations/decisions issued on that basis. Articles 11 and 12 of EU Regulation 473/2013 stipulate inter alia that the COM opinion on the DBP shall be taken into account when (1) opening an EDP, (2) recommending the imposition of a non-interest bearing deposit under an EDP and (3) when considering whether effective action has been taken in response to recommendations under an EDP.

The COM is expected to assess in May 2018 the compliance of all Member States with their current obligations under the SGP. Already in February 2018, the COM will issue country reports under the European Semester which, if they have the same approach as last year, will include the degree of **progress** in addressing the structural part of the fiscal Country Specific Recommenation issued by the Council:

See also separate EGOV briefings "Implementation of the SGP", "Structural budget balances in EU Member States" and "The role of national fiscal bodies: State of play".

France

Subject to EDP: Compliance with nominal target [2.8% of GDP in 2017] and fiscal effort [“*improvement in the structural balance of 0,9 % of (...) GDP in 2017”*)] as requested by the latest Council recommendation under the EDP; If subject to the preventive arm in 2018: Compliance with 2017 fiscal CSR as adopted by the Council [notably: “*requirement of a nominal growth rate of net primary government expenditure which does not exceed 1,2 % in 2018. It would correspond to an annual structural adjustment of 0,6 % of GDP*”]

	Overall compliance with the recommendations under EDP (for 2017) and the 2017 fiscal CSR (for 2018)	Detailed assessment of compliance	
		2017	2018
COM Opinion (11/2017)	*“Overall, and after considering the need to balance the two objectives of strengthening the ongoing recovery and ensuring fiscal sustainability, the Commission is of the opinion that the Draft Budgetary Plan of France for 2018, which is currently under the corrective arm and could become subject to the preventive arm and the transitional debt rule from 2018, is* ***at risk of non-compliance with the provisions of the Stability and Growth Pact****. In particular, the Commission* ***projects a risk of significant deviation from the required adjustment towards the MTO for 2018.****”* (p. 5)	Nominal target: “***The Commission 2017 autumn forecast expects the headline deficit to be at 2.9% of GDP in 2017, in line with the plans of the authorities.*** *However, two major risks underlie the official target for 2017. First, the budgetary impact in 2017 stemming from the recapitalisation of AREVA could be higher than currently envisaged by the authorities. Compared to the DBP, the risk to the Commission 2017 forecast is even greater to the extent that this operation is not included at all. Second, the total invalidation of the 3% tax on dividends by the French Constitutional Court entails a risk for both the 2017 and 2018 deficit targets. While the total cost of around 0.45% of GDP could be spread over several years, the decision could trigger significant reimbursements already in 2017. The authorities introduced an exceptional tax on companies designed to compensate the budgetary impact of the decision in 2017, that is expected to amount to around half of the total cost and is not included in the Commission 2017 autumn forecast. It is not excluded, however, that the impact in 2017 would be higher. If these*	Nominal target: “***For 2018, the Commission 2017 autumn forecast projects the headline deficit to remain at 2.9% of GDP, 0.3 percentage points higher than the planned deficit in the DBP.*** *When compared with the Commission forecast, the risks underlying the official plans are mostly related to a more dynamic spending by central and local authorities and stronger social spending. The invalidation of the 3% tax on dividends, which will probably entail some budgetary effect in 2018, is another main risk to the official plans as regards the durability of the correction of the excessive deficit.”* (p. 3) Top-down assessment: “*According to the DBP,* ***the nominal growth rate of net primary government expenditure exceeds significantly the benchmark rate in 2018 (gap of 0.5% of GDP). The (recalculated) structural balance also signals a risk of significant deviation (gap of 0.6% of GDP).*** *The small difference between both indicators stems primarily from the projected revenue windfalls that are broadly offset by the planned increase in public*

		risks materialise, the deficit target of 2.9% of GDP and the correction of the excessive deficit in 2017 could be at risk." (p. 3) Top-down assessment: "***The structural balance is expected to improve by 0.2% of GDP in 2017, compared to the recommended effort of 0.9% of GDP.*** *Regarding the change in the structural balance adjusted for changes in potential growth and revenue windfalls since the recommendation,* ***the gap vis-à-vis the recommended fiscal effort amounts to 0.7% of GDP in 2017****."* (p. 4) Bottom-up assessment: "*Based on the bottom-up method, the fiscal effort is projected to have a* ***gap of 0.6% of GDP in 2017****."* (p. 4) Top-down and bottom-up assessment: *"The cumulated shortfall over 2015-2017 would be of 1.6% of GDP based on both the top-down and bottom-up metrics. France is thus* ***not expected to deliver the fiscal effort recommended under the EDP****."* (p. 4)	*investment above its four-year average in 2018. Therefore, an overall assessment confirms the reading of the expenditure benchmark and concludes that the DBP plans a significant deviation from the requirements of the preventive arm in 2018.* ***The Commission 2017 autumn forecast projects a wider deviation by 0.9% of GDP from the expenditure benchmark and by 1.0% of GDP the required change in the structural balance.*** *The difference between the two pillars is marginal and, accordingly, the overall assessment would point to a risk of significant deviation from the recommended adjustment path towards the MTO in 2018."* (p. 4)
		Debt rule: "*If the excessive deficit were to be corrected in a timely and durable manner, France would have to comply with the requirements of the preventive arm of the SGP from 2018 onwards and, as its debt ratio is planned to be at 96.8% of GDP in 2017 according to the DBP, would be in the three-year transition period to make sufficient progress towards compliance with the debt reduction benchmark.* ***Based on the DBP, France would not make sufficient progress towards compliance with the debt reduction benchmark in 2018. The same conclusion is reached based on the projections in the Commission 2017 autumn forecast*** *as the structural balance is projected to deteriorate by 0.4% of GDP in 2018, which implies a gap of 0.8% of GDP from the required minimum linear structural adjustment."* (p. 4)	

	Compliance with the structural part of the 2017 fiscal CSR
	*"Concerning the structural part of the fiscal recommendations contained in the Council Recommendation of 11 July 2017, the DBP confirms the implementation of a more pronounced decrease over five years in the corporate income statutory rate compared to what was already planned. Further measures are specifically addressed to improve the growth-friendliness of the French tax structure, to promote investment and to increase the purchasing power of households, therefore **to sustain domestic demand and growth**."* (p. 5) The Commission opinion does not provide an assesment on this part.

Austria

Subject to the preventive arm: Compliance with the 2017 fiscal CSR as adopted by the Council [notably: "*Pursue its fiscal policy in line with the requirements of the preventive arm of the SGP, which entails achieving its MTO*" (structural deficit of 0.45% of GDP), "*Based on the COM 2017 spring forecast, the structural balance is required to remain stable in 2017*" and "*In 2018, based on the COM 2017 spring forecast, Austria should ensure that the nominal growth rate of net primary government expenditure (3) does not exceed 2,2 % corresponding to an improvement in the structural balance by 0,3 % of GDP*".

Note that the COM analysis of the 2018 DBP includes the following assessment: "*The Council recalled that in 2018, based on the COM 2017 spring forecast, Austria should ensure that the nominal growth rate of net primary government expenditure does not exceed 2.2%, corresponding to an improvement in the structural balance by 0.3 % of GDP. However, in view of the autumn 2017 forecast that Austria will be closer to its MTO in 2017 and in line with the arrangements in place for updating the fiscal requirements contained in the CSRs the nominal growth rate of net primary government expenditure should not exceed 2.6%, corresponding to an improvement in the structural balance by 0.1% of GDP*."

	Overall compliance with the SGP	Detailed assessment of compliance	
		2017	**2018**
COM Opinion (11/2017)	*"Overall, while acknowledging the no-policy-change nature of its projections, the Commission is of the opinion that the DBP of Austria, which is currently under the preventive arm and subject to the debt reduction benchmark, is* ***at risk of non-compliance with the provisions of the Stability and Growth Pact****. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2018 budget will be compliant with the SGP."* (p. 4)	*"According to the information provided in the DBP, in 2017* ***the expenditure benchmark points to a risk of some deviation from the applicable real reference rate of 1.1% (gap of 0.3% of GDP), while the (recalculated) structural balance points to compliance****. (...) Therefore, the overall assessment points to a risk of some deviation in 2017 and of significant deviation for 2016 and 2017 together."* (p. 3) *"This conclusion is* ***confirmed based on the Commission 2017 autumn forecast****, and would not change in case the additional budgetary impact of the inflow of refugees and the*	*"In 2018, based on the information provided in the DBP,* ***the expenditure benchmark points to a risk of significant deviation from the applicable nominal reference rate of 2.6% (gap of 0.7% of GDP), while the (recalculated) structural balance points to a risk of some deviation from the required adjustment of 0.1% of GDP (gap of 0.4% of GDP)****. (...) Therefore, the overall assessment points to a risk of significant deviation from the required adjustment in 2018."* (p. 3) *"Based on the Commission 2017 autumn forecast and applying similar arguments, the overall assessment points to* ***a risk of some***

		exceptional security measures in 2017 were excluded from the assessment." (p. 3)	***deviation in 2018 and of significant deviation for 2017 and 2018 together****. This conclusion would not change in case the carry-over of the additional budgetary impact of the inflow of refugees and the exceptional security measures in 2017 were excluded from the assessment."* (p. 3)
		Debt rule: "The DBP Plan does not include sufficient information to assess compliance with the debt reduction benchmark. Based on the Commission 2017 autumn forecast, the ***debt reduction benchmark is projected to be met in 2017 and 2018****."* (p. 3)	
	Compliance with the structural part of the 2017 fiscal CSR		
	"The Commission is also of the opinion that Belgium has made ***some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 11 July 2017*** *in the context of the 2017 European Semester and invites the authorities to make further progress."* (p. 4)		

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Belgium

Subject to the preventive arm: Compliance with the 2017 fiscal CSR as adopted by the Council [notably: "*On 12 July 2016, the Council recommended Belgium to achieve an annual fiscal adjustment of at least 0,6 % of GDP towards the MTO in 2017*" and "*In 2018, in light of its fiscal situation and in particular of its debt level, Belgium is expected to further adjust towards its MTO of a balanced budgetary position in structural terms. According to the commonly agreed adjustment matrix under the SGP, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure (1) which does not exceed 1,6 % in 2018. It would correspond to an annual structural adjustment of at least 0,6 % of GDP.*"]
</td></tr>
<tr><td rowspan="3">COM Opinion (11/2017)</td><td rowspan="2">Overall compliance with the SGP</td><td colspan="2">Detailed assessment of compliance</td></tr>
<tr><td>2017</td><td>2018</td></tr>
<tr><td>"Overall, and after considering the need to balance the two objectives of strengthening the ongoing recovery and ensuring fiscal sustainability, the Commission is of the opinion that the Draft Budgetary Plan of Belgium, which is currently under the preventive arm and subject to the debt reduction benchmark, is at risk of non- compliance with the provisions of the SGP." (p. 5)</td><td>"The DBP points to a risk of some deviation from that adjustment path in 2017 on the basis of the real growth rate of net primary government expenditure. The planned change in the (recalculated) structural balance is compliant. In 2016 and 2017 together, the expenditure aggregate points to a risk of significant deviation while the structural balance signals some deviation." (p. 3)

"The Commission 2017 autumn forecast shows similar deviations for both indicators in 2017 as well as in 2016-2017." (p. 3)

"The overall assessment concludes a risk of significant deviation from the recommended structural adjustment path towards the MTO in 2017, both on the basis of the DBP (gap of 0.4%</td><td>"According to the DBP the expenditure aggregate exceeds the benchmark rate in 2018, with a deviation at the limit of significance (gap of 0.5% of GDP). The (recalculated) structural balance points to some deviation from the requirements (gap of 0.3% of GDP). For 2017 and 2018 together, the Draft Budgetary Plan signals a risk of significant deviation for the expenditure aggregate (average gap of 0.4% of GDP) while the structural balance indicates a risk of some deviation (average gap of 0.1% of GDP)." (p. 4)

"The Commission 2017 autumn forecast projects a significant deviation from the expenditure benchmark in 2018 (gap of 0.8% of GDP), which is confirmed by the adjustment in the structural balance (gap of 0.7% of GDP).</td></tr>
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		of GDP) and the Commission 2017 autumn forecast (gap of 0.5% of GDP).” (p. 3)	*Also for 2017 and 2018 together both indicators point to a risk of significant deviation. (...) the overall assessment on the basis of the Commission 2017 autumn forecast confirms the reading of the expenditure benchmark, namely a risk of significant deviation from the recommended structural adjustment path towards the medium-term budgetary objective in 2018 as well as in 2017 and 2018 taken together.”* (p. 4)
		*Debt rule: “On 22 May 2017, the Commission issued a report under Article 126(3) TFEU, as Belgium did not make sufficient progress towards compliance with the debt reduction benchmark in 2016. The report concluded that, after the assessment of all relevant factors**, the debt criterion should be considered as complied with.** (...) The Draft Budgetary Plan does not include sufficient information to assess compliance with the debt reduction benchmark. **Based on the Commission 2017 autumn forecast, the debt reduction benchmark is not projected to be met in 2017 and 2018.**”* (p. 3)	
	Compliance with the structural part of the 2017 fiscal CSR		
	*“The Commission is also of the opinion that Belgium has made **some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 11 July 2017** in the context of the 2017 European Semester and invites the authorities to make further progress.”* (p. 5)		

Italy

Subject to the preventive arm: Compliance with the 2017 fiscal CSR as adopted by the Council [notably: "*annual fiscal adjustment of 0,6 % or more of GDP towards the MTO in 2017*" and "*requirement of a nominal rate of reduction of net primary government expenditure by at least 0,2 % in 2018. It would correspond to an annual structural adjustment of at least 0,6 % of GDP"*]

<table>
<tr><th rowspan="2"></th><th rowspan="2">Overall compliance with the SGP</th><th colspan="2">Detailed assessment of compliance</th></tr>
<tr><th>2017</th><th>2018</th></tr>
<tr><td rowspan="2">COM Opinion (11/2017)</td><td rowspan="2">"Overall, and after considering the need to balance the two objectives of strengthening the ongoing recovery and ensuring fiscal sustainability, the Commission is of the opinion that the Draft Budgetary Plan of Italy, which is currently under the preventive arm and subject to the debt reduction benchmark, is at risk of non- compliance with the provisions of the Stability and Growth Pact. The fiscal adjustment projected in the Commission 2017 autumn forecast for 2018 is not adequate in light of the sustainability challenges that Italy faces." (p.6)</td><td>"Based on the DBP, the expenditure benchmark points to a risk of significant deviation in 2017 both over one year (gap of 1.2% of GDP) and over two years (gap of 0.6% of GDP per year, on average). (..) Overall, Italy's Draft Budgetary Plan plans a significant deviation from the required adjustment towards the MTO in 2017." (p. 4)

"Based on the Commission 2017 autumn forecast, the expenditure benchmark points to a risk of significant deviation in 2017 both over one year (gap of 0.9% of GDP) and over two years (gap of 0.4% of GDP per year, on average). (...) the overall assessment points to a risk of significant deviation in 2017 based on the Commission 2017 autumn forecast." (p. 4)</td><td>"Based on the DBP, the expenditure benchmark points to a risk of some deviation over one year (gap of 0.1% of GDP) and to a risk of significant deviation over two years (gap of 0.6% of GDP per year, on average). (...) Overall, Italy's Draft Budgetary Plan plans a significant deviation from the required adjustment towards the MTO in 2018." (p. 4-5)

"Based on the Commission 2017 autumn forecast, the expenditure benchmark points to a risk of significant deviation in 2018 both over one year (gap of 0.5% of GDP) and over two years (gap of 0.7% of GDP per year, on average). (...) the overall assessment points to a risk of significant deviation in 2018 (...)." (p. 5)</td></tr>
<tr><td colspan="2"><u>Debt rule</u>: "On 22 February 2017, the Commission issued a report under Article 126(3) TFEU as Italy had not made sufficient progress towards compliance with the debt criterion in 2015. The report concluded that the debt reduction benchmark should be considered as not complied with at that stage, unless additional measures worth 0.2% of GDP were delivered. Following the enactment of those measures, the Commission indicated that no further assessment of compliance with the debt</td></tr>
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		criterion in 2015 would be needed, and a new assessment of compliance with the debt criterion in 2016 based on the Commission 2017 autumn forecast was announced." (p. 4)
	Compliance with the structural part of the 2017 fiscal CSR	
	"The Commission is also of the opinion that Italy has made ***some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 11 July 2017*** *in the context of the 2017 European Semester and invites the authorities to make further progress."* (p. 6)	

Portugal

Subject to the preventive arm: Compliance with the 2017 fiscal CSR as adopted by the Council [notably: "*annual fiscal adjustment of at least 0,6 % of GDP towards the MTO in 2017*" and "*Portugal is expected to further adjust towards its MTO of a structural surplus of 0,25 % of GDP. According to the commonly agreed adjustment matrix under the SGP, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure which does not exceed 0,1 % in 2018. It would correspond to a structural adjustment of at least 0,6 % of GDP.*"]

	Overall compliance with the SGP	Detailed assessment of compliance	
		2017	**2018**
COM Opinion (11/2017)	*"Overall and after considering the need to balance the two objectives of strengthening the ongoing recovery and ensuring fiscal sustainability, the Commission is of the opinion that the Draft Budgetary Plan of Portugal, which is currently under the preventive arm and subject to the transitional arrangements as regards compliance with the debt reduction benchmark, is* ***at risk of non-compliance with the provisions of the Stability and Growth Pact****."* (p. 5) *"In particular, the Commission projects* ***a risk of significant deviation from the required adjustment towards the MTO for both 2017 and 2018****. Therefore, the Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2018 budget will be compliant with the SGP."* (p. 5)	Top down assessment: "*For 2017, Portugal is required to pursue an annual structural adjustment towards the MTO of at least 0.6% of GDP.* ***While the expenditure benchmark points to a risk of significant deviation (gap of 1.0% of GDP), the structural balance points to a risk of some (but close to significant) deviation (gap of 0.5% of GDP).*** *Taking into account the negative impact of medium-term potential growth on the expenditure benchmark and the positive impact of revenue windfalls and lower interest costs on the structural balance, both indicators would point to a significant deviation. Based on the overall assessment, the planned structural adjustment in the DBP thus points to a risk of significant deviation from the recommended structural adjustment towards the MTO. This* ***risk of significant deviation for 2017 is confirmed by an overall assessment based on the Commission 2017 autumn forecast.****"* (p. 4)	Top down assessment: "*For 2018, the nominal growth rate of net primary government expenditure should not exceed 0.1 %, corresponding to a structural adjustment of at least 0.6 % of GDP.* ***While the expenditure benchmark again points to a risk of significant deviation (gap of 1.0% of GDP), the (recalculated) structural balance points to risk of some deviation (gap of 0.2% of GDP) from the recommended structural adjustment.*** *Taking into account the negative impact of medium-term potential growth assumptions on the expenditure benchmark, the positive impact of revenue windfalls and lower interest costs on the structural balance and the negative impact of the high planned increase in gross fixed capital formation on the structural balance, both indicators would point to a risk of significant deviation. Taking into consideration the above-mentioned effects, both indicators would point to a risk of significant deviation from the requirements over 2017 and 2018*

			taken together, suggesting that the 2017 deviations are not planned to be compensated for in 2018. Therefore, based on an overall assessment, the DBP plans a significant deviation from the recommended structural adjustment towards the MTO over 2017 and 2018 taken together." (p.4) *"The Commission 2017 autumn forecast also points to* ***a risk of significant deviation from the recommended structural adjustment towards the MTO in 2018. Both the expenditure benchmark (gap of 1.3% of GDP) and the structural balance (gap of 0.6% of GDP) point to a risk of significant deviation.*** *Also over 2017 and 2018 taken together, both indicators point to a risk of a significant deviation (average gap of 1.3% of GDP for the expenditure benchmark and 0.5% of GDP for the structural balance). Taking into consideration the above-mentioned elements, the risk of a significant deviation in both 2018 and over 2017 and 2018 taken together is confirmed based on. the Commission forecast."* (p. 4)
		Debt rule: *"The DBP does not include sufficient information to assess compliance with the transitional arrangements to make sufficient progress towards compliance with the debt reduction benchmark. According to the Commission 2017 autumn forecast, Portugal is* ***projected to make sufficient progress towards compliance with the debt reduction benchmark in 2017 and 2018 as a result of the allowed annual deviation of 0.25% of GDP.*** *However, since Portugal would take advantage of the room for manoeuvre embedded in the rule, a stronger adjustment would have to be made in the remaining year of the transition period to ensure compliance with the benchmark at the end of the transition period."* (p. 4)	

	Compliance with the structural part of the 2017 fiscal CSR
	"With regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 11 July 2017, ***limited progress appears to have been achieved in terms of increasing the scope of the expenditure review, which now also includes justice and internal affairs as well as more ambitious savings targets****." (p. 5)*

Slovenia

Subject to the preventive arm: Compliance with the 2017 fiscal CSR as adopted by the Council [notably: "*On 12 July 2016, the Council recommended Slovenia to achieve an annual fiscal adjustment of at least 0,6 % of GDP towards the MTO in 2017*" and "*In 2018, in the light of its fiscal situation and in particular of its debt level, Slovenia is expected to further adjust towards an appropriate MTO. According to the commonly agreed adjustment matrix under the SGP, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure which does not exceed 0,6 %. It would correspond to a structural adjustment of 1 % of GDP*"]

	Overall compliance with the SGP	Detailed assessment of compliance	
		2017	2018
COM Opinion (11/2017)	*"Overall and after considering the need to balance the objectives of strengthening the ongoing recovery and of ensuring fiscal sustainability, the Commission is of the opinion that the DBP of Slovenia, which is currently under the preventive arm and subject to the transitional period to make sufficient progress towards compliance with the debt reduction benchmark, is* ***at risk of non-compliance with the provisions of the SGP****. (...) Therefore, the Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2018 budget will be compliant with the SGP."* (p. 5)	*"In 2017, Slovenia was recommended to achieve a structural adjustment of 0.6 % of GDP.* ***The expenditure benchmark*** *pillar based on the DBP* ***indicates compliance. By contrast, the change in the (recalculated) structural balance planned in the Draft Budgetary Plan points to a risk of a significant deviation, both over one year (deviation of 0.6 % of GDP) and two years (average annual deviation of 0.4 % of GDP).*** *(...) Therefore, the Draft Budgetary Plan submitted by Slovenia is assessed to plan compliance with the requirements of the preventive arm in 2017."* (p. 3) *"According to the Commission autumn forecast,* ***both the structural balance and the expenditure benchmark point to a risk of a significant deviation*** *in 2017 (gap of 0.7% of GDP and 0.6% of GDP respectively)."* (p. 3)	*"****The expenditure benchmark based on the DBP points to a risk of some deviation over 2018 (gap of 0.4 % of GDP) and over 2017 and 2018 taken together (average annual deviation of 0.2 % of GDP). At the same time, the (recalculated) structural balance planned in the DBP points to a risk of a significant deviation, both in 2018 (gap of 0.5 % of GDP) and over 2017 and 2018 together (gap of 0.6 % of GDP).*** *(...) Therefore, the DBP is assessed to plan a risk of some deviation from the requirements of the preventive arm in 2018."* (p. 3-4) *"According to the Commission's autumn forecast,* ***both pillars point to a risk of a significant deviation*** *(gap of 1.2% and 1.0% of GDP based on the expenditure benchmark and the structural balance respectively). An overall assessment confirms the conclusion of a risk of significant deviation."* (p. 4)

		<u>Debt rule:</u> *"The DBP does not include sufficient information to assess compliance with the transitional arrangements regarding the debt reduction benchmark. On the basis of the Commission 2017 autumn forecast, Slovenia is* ***projected to make sufficient progress towards compliance with the debt reduction benchmark in 2017 and 2018****. "* (p. 3)
	Compliance with the structural part of the 2017 fiscal CSR	
	"The Commission is also of the opinion that Slovenia has made ***some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 11 July 2017*** *in the context of the 2017 European Semester and thus invites the authorities to make further progress."* (p. 5)	

Annex: Main legal provisions related to the implementation of the SGP

Countries in the corrective arm of the SGP

Excessive Deficit Procedure under Article 126 of the TFEU

Council Regulation 1467/97: Article 2

1. The excess of a government deficit over the reference value shall be considered exceptional, in accordance with the second indent of point (a) of Article 126(2) of the Treaty on the Functioning of the European Union (TFEU), when resulting from an unusual event outside the control of the Member State concerned and with a major impact on the financial position of general government, or when resulting from a severe economic downturn.

In addition, the excess over the reference value shall be considered temporary if budgetary forecasts as provided by the Commission indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

1a. When it exceeds the reference value, the ratio of the government debt to gross domestic product (GDP) shall be considered sufficiently diminishing and approaching the reference value at a satisfactory pace in accordance with point (b) of Article 126(2) TFEU if the differential with respect to the reference value has decreased over the previous three years at an average rate of one twentieth per year as a benchmark, based on changes over the last three years for which the data is available.

The requirement under the debt criterion shall also be considered to be fulfilled if the budgetary forecasts of the Commission indicate that the required reduction in the differential will occur over the three-year period encompassing the two years following the final year for which the data is available. For a Member State that is subject to an excessive deficit procedure on 8 November 2011 and for a period of three years from the correction of the excessive deficit, the requirement under the debt criterion shall be considered fulfilled if the Member State concerned makes sufficient progress towards compliance as assessed in the opinion adopted by the Council on its stability or convergence programme.

In implementing the debt ratio adjustment benchmark, account shall be taken of the influence of the cycle on the pace of debt reduction.

2. The Commission and the Council, when assessing and deciding upon the existence of an excessive deficit in accordance with Article 126(3) to (6) TFEU, may consider an excess over the reference value resulting from a severe economic downturn as exceptional in the sense of the second indent of Article 126(2) (a) cif the excess over the reference value results from a negative annual GDP volume growth rate or from an accumulated loss of output during a protracted period of very low annual GDP volume growth relative to its potential.

3. The Commission, when preparing a report under Article 126(3) TFEU, shall take into account all relevant factors as indicated in that Article, in so far as they significantly affect the assessment of compliance with the deficit and debt criteria by the Member State concerned. (...)

The Commission shall give due and express consideration to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with deficit and debt criteria and which the Member State has put forward to the Council and the Commission. In that context, particular consideration shall be given to financial contributions to fostering international solidarity and achieving the policy goals of the Union, the debt incurred in the form of bilateral and multilateral support between Member States in the context of safeguarding financial stability, and the debt related to financial stabilisation operations during major financial disturbances.

4. The Council and the Commission shall make a balanced overall assessment of all the relevant factors, specifically, the extent to which they affect the assessment of compliance with the deficit and/or the debt criteria as aggravating or mitigating factors. When assessing compliance on the basis of the deficit criterion, if the ratio of the government debt to GDP exceeds the reference value, those factors shall be taken into account in the steps leading to the decision on the existence of an excessive deficit provided for in paragraphs 4, 5 and 6 of Article 126 TFEU only if the double condition of the overarching principle — that, before these relevant factors are taken into account, the general government deficit remains close to the reference value and its excess over the reference value is temporary — is fully met.

However, those factors shall be taken into account in the steps leading to the decision on the existence of an excessive deficit when assessing compliance on the basis of the debt criterion. (...)

Issuance of revised Council recommendations

Council Regulation 1467/97: Articles 3, 4 and 5

3 (5): If effective action has been taken in compliance with a recommendation under Article 126(7) TFEU and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that recommendation, the Council may decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) TFEU. The revised recommendation, taking into account the relevant factors referred to in Article 2(3) of this Regulation may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule. The Council shall assess the existence of unexpected adverse economic events with major unfavourable consequences for government finances against the economic forecasts in its recommendation. In the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) TFEU provided that this does not endanger fiscal sustainability in the medium term.

[3(4): The Council recommendation made in accordance with Article 126(7) TFEU shall establish a maximum deadline of six months for effective action to be taken by the Member State concerned. When warranted by the seriousness of the situation, the deadline for effective action may be three months. The Council recommendation shall also establish a deadline for the correction of the excessive deficit, which shall be completed in the year following its identification unless there are special circumstances. In its recommendation, the Council shall request that the Member State achieve annual budgetary targets which, on the basis of the forecast underpinning the recommendation, are consistent with a minimum annual improvement of at least 0,5 % of GDP as a benchmark, in its cyclically adjusted balance net of one-off and temporary measures, in order to ensure the correction of the excessive deficit within the deadline set in the recommendation.]

4 (1): Any decision by the Council under Article 126(8) TFEU to make public its recommendations where it is established that no effective action has been taken, shall be taken immediately after the expiry of the deadline set in accordance with Article 3(4) of this Regulation.

4(2): The Council, when considering whether effective action has been taken in response to its recommendations made in accordance with Article 126(7) TFEU, shall base its decision on the report submitted by the Member State concerned in accordance with Article 3(4a) of this Regulation and its implementation, as well as on any other publicly announced decisions by the government of the Member State concerned. Where the Council establishes, in accordance with Article 126(8) TFEU, that the Member State concerned has failed to take effective action, it shall report to the European Council accordingly.

5 (1): Any Council decision to give notice to the participating Member State concerned to take measures for the deficit reduction in accordance with Article 126(9) TFEU shall be taken within two months of the Council decision under Article 126(8) TFEU establishing that no effective action has been taken. In the notice, the Council shall request that the Member State achieve annual budgetary targets which, on the basis of the forecast underpinning the notice, are consistent with a minimum annual improvement of at least 0,5 % of GDP as a benchmark, in its cyclically adjusted balance net of one-off and temporary measures, in order to ensure the correction of the excessive deficit within the deadline set in the notice. The Council shall also indicate measures conducive to the achievement of those targets.

5 (1a): Following a Council notice under Article 126(9) TFEU, the Member State concerned shall report to the Council and the Commission on action taken in response thereto. The report shall include the targets for the government expenditure and revenue and for the discretionary measures on both the expenditure and the revenue side, as well as information on the actions being taken in response to the specific Council recommendations so as to allow the Council to take, if necessary, a decision in accordance with Article 6(2) of this Regulation. The Member State shall make the report public.

5 (2): If effective action has been taken in compliance with a notice under Article 126(9) TFEU and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that notice, the Council may decide, on a recommendation from the Commission, to adopt a revised notice under Article 126(9) TFEU. The revised notice, taking into account the relevant factors referred to in Article 2(3) of this Regulation may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule. The Council shall assess the existence of unexpected adverse economic events with major unfavourable consequences for government finances against the economic forecasts in its notice. In the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide, on a recommendation from the Commission, to adopt a revised notice under Article 126(9) TFEU, on condition that this does not endanger fiscal sustainability in the medium term.

Issuance of sanctions

Council Regulation 1467/97: Articles 11 and 12

11: Whenever the Council decides under Article 126(11) TFEU to impose sanctions on a participating Member State, a fine shall, as a rule, be required. The Council may decide to supplement such a fine by the other measures provided for in Article 126(11) TFEU.

12 (1): The amount of the fine shall comprise a fixed component equal to 0,2 % of GDP, and a variable component. The variable component shall amount to one tenth of the absolute value of the difference between the balance as a percentage of GDP in the preceding year and either the reference value for government balance or, if non-compliance with budgetary discipline includes the debt criterion, the government balance as a percentage of GDP that should have been achieved in the same year according to the notice issued under Article 126(9) TFEU.

12 (2): In each year following that in which a fine is imposed, until the decision on the existence of an excessive deficit is abrogated, the Council shall assess whether the participating Member State concerned has taken effective action in response to the Council notice in accordance with Article 126(9) TFEU. In this annual assessment the Council shall decide, in accordance with Article 126(11) TFEU, to intensify the sanctions, unless the participating Member State concerned has complied with the Council's notice. If the Council decides to impose an additional fine, it shall be calculated in the same way as for the variable component of the fine referred to in paragraph 1.

12 (3): No single fine referred to in paragraphs 1 and 2 shall exceed 0,5 % of GDP.

Council Regulation 1173/2011 [euro area]: Articles 5 and 11

5(1) If the Council, acting under Article 126(6) TFEU, decides that an excessive deficit exists in a Member State which has lodged an interest-bearing deposit with the Commission in accordance with Article 4(1) of this Regulation, or where the Commission has identified particularly serious non-compliance with the budgetary policy obligations laid down in the SGP, the Commission shall, within 20 days of adoption of the Council's decision, recommend that the Council, by a further decision, require the Member State concerned to lodge with the Commission a non-interest-bearing deposit amounting to 0,2 % of its GDP in the preceding year.

5(2) The decision requiring a lodgement shall be deemed to be adopted by the Council unless it decides by a qualified majority to reject the Commission's recommendation within 10 days of the Commission's adoption thereof.

5(3) The Council, acting by a qualified majority, may amend the Commission's recommendation and adopt the text so amended as a Council decision.

5(4) The Commission may, on grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned addressed to the Commission within 10 days of adoption of the Council's decision under Article 126(6) TFEU referred to in paragraph 1, recommend that the Council reduce the amount of the non-interest-bearing deposit or cancel it.

5(5) The deposit shall be lodged with the Commission. If the Member State has lodged an interest-bearing deposit with the Commission in accordance with Article 4, that interest-bearing deposit shall be converted to a non-interest-bearing deposit.

If the amount of an interest-bearing deposit lodged in accordance with Article 4 and of the interest accrued thereon exceeds the amount of the non-interest-bearing deposit to be lodged under paragraph 1 of this Article, the excess shall be returned to the Member State.

If the amount of the non-interest-bearing deposit exceeds the amount of an interest-bearing deposit lodged in accordance with Article 4 and the interest accrued thereon, the Member State shall make up the shortfall when it lodges the non-interest-bearing deposit.

Article 11

11(1): If the Council, acting under Article 126(8) TFEU, decides that a Member State has not taken effective action to correct its excessive deficit, the Commission shall, within 20 days of that decision, recommend that the Council, by a further decision, impose a fine, amounting to 0,2 % of the Member State's GDP in the preceding year.

11(2): The decision imposing a fine shall be deemed to be adopted by the Council unless it decides by a qualified majority to reject the Commission's recommendation within 10 days of the Commission's adoption thereof.

11(3): The Council, acting by a qualified majority, may amend the Commission's recommendation and adopt the text so amended as a Council decision.

11(4): The Commission may, on grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned addressed to the Commission within 10 days of adoption of the Council's decision under Article 126(8) TFEU referred to in paragraph 1, recommend that the Council reduce the amount of the fine or cancel it.

11(5): If the Member State has lodged a non-interest-bearing deposit with the Commission in accordance with Article 5, the non-interest-bearing deposit shall be converted into the fine. If the amount of a non-interest-bearing deposit lodged in accordance with Article 5 exceeds the amount of the fine, the excess shall be returned to the Member State.

If the amount of the fine exceeds the amount of a non-interest-bearing deposit lodged in accordance with Article 5, or if no non-interest-bearing deposit has been lodged, the Member State shall make up the shortfall when it pays the fine

Countries in the preventive arm of the SGP

Surveillance of Stability Programmes under Article 121(2) of the TFEU

Regulation 1466/97: Articles 5 and 6

Art. 5(2) The Council and the Commission shall examine the stability programme within at most 3 months of its submission. The Council, on a recommendation from the Commission and after consulting the Economic and Financial Committee, shall, if necessary, adopt an opinion on the programme. Where the Council, in accordance with Article 121 TFEU, considers that the objectives and the content of the programme should be strengthened with particular reference to the adjustment path towards the medium-term budgetary objective, the Council shall in its opinion invite the Member State concerned to adjust its programme.

Art. 6

1. As part of multilateral surveillance in accordance with Article 121(3) TFEU, the Council and the Commission shall monitor the implementation of stability programmes, on the basis of information provided by participating Member States and of assessments by the Commission and the Economic and Financial Committee, in particular with a view to identifying actual or expected significant divergences of the budgetary position from the medium-term budgetary objective, or from the appropriate adjustment path towards it.

2. In the event of a significant observed deviation from the adjustment path towards the medium-term budgetary objective referred to in the third subparagraph of Article 5(1) of this Regulation, and in order to prevent the occurrence of an excessive deficit, the Commission shall address a warning to the Member State concerned in accordance with Article 121(4) TFEU.

The Council shall, within 1 month of the date of adoption of the warning referred to in the first subparagraph, examine the situation and adopt a recommendation for the necessary policy measures, on the basis of a Commission recommendation, based on Article 121(4) TFEU. The recommendation shall set a deadline of no more than 5 months for addressing the deviation. The deadline shall be reduced to 3 months if the Commission, in its warning, considers that the situation is particularly serious and warrants urgent action. The Council, on a proposal from the Commission, shall make the recommendation public.

Within the deadline set by the Council in the recommendation under Article 121(4) TFEU, the Member State concerned shall report to the Council on action taken in response to the recommendation.

If the Member State concerned fails to take appropriate action within the deadline specified in a Council recommendation under the second subparagraph, the Commission shall immediately recommend to the Council to adopt, by qualified majority, a decision establishing that no effective action has been taken. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

In the event that the Council does not adopt the decision on the Commission recommendation that no effective action has been taken, and failure to take appropriate action on the part of the Member State concerned persists, the Commission, after 1 month from its earlier recommendation, shall recommend to the Council to adopt the decision establishing that no effective action has been taken. The decision shall be deemed to be adopted by the Council unless it decides, by simple majority, to reject the recommendation within 10 days of its adoption by the Commission. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

When taking the decision on non-compliance referred to in the fourth and fifth subparagraphs, only members of the Council representing participating Member States shall vote and the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.

The Council shall submit a formal report to the European Council on the decisions taken accordingly.

3. A deviation from the medium-term budgetary objective or from the appropriate adjustment path towards it shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures, as defined in Article 5(1).

The assessment of whether the deviation is significant shall, in particular, include the following criteria:

(a) for a Member State that has not reached the medium-term budgetary objective, when assessing the change in the structural balance, whether the deviation is at least 0,5 % of GDP in a single year or at least 0,25 % of GDP on average per year in 2 consecutive years;

(b) when assessing expenditure developments net of discretionary revenue measures, whether the deviation has a total impact on the government balance of at least 0,5 % of GDP in a single year or cumulatively in 2 consecutive years.

The deviation of expenditure developments shall not be considered significant if the Member State concerned has overachieved the medium-term budgetary objective, taking into account the possibility of significant revenue windfalls and the budgetary plans laid out in the stability programme do not jeopardise that objective over the programme period.

Similarly, the deviation may be left out of consideration when it results from an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government or in case of severe economic downturn for the euro area or the Union as a whole, provided that this does not endanger fiscal sustainability in the medium-term.

Issuance of sanctions

Council Regulation 1173/2011 [euro area]: Article 4

1. If the Council adopts a decision establishing that a Member State failed to take action in response to the Council recommendation referred to in the second subparagraph of Article 6(2) of Regulation (EC) No 1466/97, the Commission shall, within 20 days of adoption of the Council's decision, recommend that the Council, by a further decision, require the Member State in question to lodge with the Commission an interest-bearing deposit amounting to 0,2 % of its GDP in the preceding year.

2. The decision requiring a lodgement shall be deemed to be adopted by the Council unless it decides by a qualified majority to reject the Commission's recommendation within 10 days of the Commission's adoption thereof.

3. The Council, acting by a qualified majority, may amend the Commission's recommendation and adopt the text so amended as a Council decision.

4. The Commission may, following a reasoned request by the Member State concerned addressed to the Commission within 10 days of adoption of the Council's decision establishing that a Member State failed to take action referred to in paragraph 1, recommend that the Council reduce the amount of the interest-bearing deposit or cancel it.

5. The interest-bearing deposit shall bear an interest rate reflecting the Commission's credit risk and the relevant investment period.

6. If the situation giving rise to the Council's recommendation referred to in the second subparagraph of Article 6(2) of Regulation (EC) No 1466/97 no longer exists, the Council, on the basis of a further recommendation from the Commission, shall decide that the deposit and the interest accrued thereon be returned to the Member State concerned. The Council may, acting by a qualified majority, amend the Commission's further recommendation