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ANNEXES 1 to 5

ANNEXES

to the

COMMUNICATION FROM THE COMMISSION

2016 Draft Budgetary Plans : Overall Assessment

ANNEX 1: Country-specific assessment of DBPs

<u>Member States under the preventive arm of the SGP</u>

Plans compliant with the country's obligations

The Commission is of the opinion that the Draft Budgetary Plan of **Germany**, which is currently under the preventive arm of the Stability and Growth Pact and subject to the debt rule, is compliant with the provisions of the Stability and Growth Pact. Germany's favourable budgetary situation should also provide scope to further increase public investment in infrastructure, education and research as recommended by the Council in the context of the European Semester, as well as to cover additional expenditure that may result from the strong inflow of asylum seekers but could not yet be fully factored into the budget plans. The Commission is also of the opinion that Germany has made limited progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to accelerate progress.

The Commission is of the opinion that the Draft Budgetary Plan of **Estonia**, which is currently under the preventive arm, is compliant with the provisions of the Stability and Growth Pact.

The Commission is of the opinion that the Draft Budgetary Plan of **Luxembourg**, which is currently under the preventive arm, is compliant with the provisions of the Stability and Growth Pact. The Commission is also of the opinion that Luxembourg has made limited progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to accelerate progress.

The Commission is of the opinion that the Draft Budgetary Plan of the **Netherlands**, which is currently under the preventive arm and subject to the (transitional) debt rule, is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to rigorously implement the 2016 budget. The Commission is also of the opinion that the Netherlands has made some progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and invites the authorities to make further progress.

After taking into account the additional information provided by the Slovak authorities, the Commission is of the opinion that the Draft Budgetary Plan of **Slovakia**, which is currently under the preventive arm, is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to implement the 2016 budget rigorously. The Commission is also of the opinion that Slovakia has made limited progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to accelerate progress.

Plans broadly compliant

The Commission is of the opinion that the Draft Budgetary Plan of **Belgium**, which is currently under the preventive arm and subject to the (transitional) debt rule, is broadly compliant with the provisions of the Stability and Growth Pact. In particular, according to the Commission 2015 autumn forecast, there is a risk of some deviation from the required adjustment towards the MTO. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP. The Commission is also of the opinion that Belgium has made some progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance (including the pension system, the fiscal framework and the tax system) and invites the authorities to make further progress.

The Commission is of the opinion that the Draft Budgetary Plan of **Latvia**, which is currently under the preventive arm, is broadly compliant with the provisions of the Stability and Growth Pact. In particular, according to the Commission 2015 autumn forecast, there is a risk of some deviation from the required adjustment towards the MTO. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP.

The Commission is of the opinion that the Draft Budgetary Plan of **Malta**, which is currently under the preventive arm and subject to the debt rule, is broadly compliant with the provisions of the Stability and Growth Pact. In particular, according to the Commission 2015 autumn forecast, there is a risk of some deviation from the required adjustment towards the MTO. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP. The Commission is also of the opinion that Malta has made some progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and invites the authorities to make further progress.

The Commission is of the opinion that the Draft Budgetary Plan of **Finland**, which is currently under the preventive arm, is broadly compliant with the provisions of the Stability and Growth Pact. In particular, there is a risk of some deviation from the required adjustment towards the MTO in 2015 and 2016. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP. The Commission is also of the opinion that Finland has made limited progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to accelerate progress.

Plans at risk of non-compliance

The Commission is of the opinion that the Draft Budgetary Plan of **Italy**, which is currently under the preventive arm and subject to the transitional debt rule, is at risk of non-compliance with the provisions of the Stability and Growth Pact. In particular, according the Commission 2015 autumn forecast there is a risk of significant deviation from the required adjustment path towards the MTO in 2016. The Commission will continue to closely monitor Italy's compliance with the obligations under the SGP, notably in connection with the assessment of the next Stability Programme. In the context of the 'overall assessment' of a possible deviation from the adjustment path towards the MTO, the Commission will take into account the above considerations on Italy's possible eligibility for flexibility under the SGP. Particular attention will be paid to whether a deviation from the adjustment path is being effectively used for the purposes of increasing investments; to the existence of credible plans for the resumption of the adjustment path towards the MTO; and to progress with the structural reform agenda, taking into account the Council recommendations. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP. The Commission is also of the opinion that Italy has made some progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to make further progress.

The Commission is of the opinion that the Draft Budgetary Plan of **Lithuania**, which is currently under the preventive arm, is at risk of non-compliance with the provisions of the Stability and Growth Pact. According to the Commission 2015 autumn forecast, the required adjustment towards the MTO is not projected to be delivered and a significant deviation from the MTO is to be expected in 2016. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the Stability and Growth Pact. The Commission is also of the opinion that Lithuania has made limited progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to accelerate progress.

The Commission is of the opinion that the Draft Budgetary Plan of **Austria**, which is currently under the preventive arm and subject to the (transitional) debt rule is at risk of non-compliance with the provisions of the Stability and Growth Pact. In fact, the Commission autumn forecast point to a risk of significant deviation from the MTO in 2016. However, in case the current estimate of the budgetary impact of the exceptional inflow of refugees was excluded from the assessment, the projected deviation would no longer be significant. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP. The Commission is also of the opinion that Austria has made limited progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to accelerate progress.

Member States under the corrective arm of the SGP

Plans broadly compliant

The Commission is of the opinion that the Draft Budgetary Plan of **Ireland**, which is currently under the corrective arm and could become subject to the preventive arm from 2016 in case a timely and a sustainable correction of the excessive deficit is achieved, is broadly compliant with the provisions of the Stability and Growth Pact. In particular, according to the Commission forecast, there is a risk of some deviation from the expenditure benchmark in 2016. Moreover, the Commission notes that the extra government spending announced for the last three months of 2015 comes at a time when the Irish economy is already growing at exceptionally strong rates. The Commission therefore recalls earlier guidance as provided in the Council Recommendation under the Excessive Deficit Procedure of 7 December 2010 and in the context of the European Semester to use windfalls to accelerate debt reduction and invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP. The Commission is also of the opinion that Ireland has made some progress with regard to the Country Specific Recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and invites the authorities to make further progress.

The Commission is of the opinion that the Draft Budgetary Plan of **France**, which is currently under the corrective arm, is broadly compliant based on the headline deficit target although the fiscal effort is projected to fall significantly short of the recommended level, according to all metrics. The budgetary strategy is based on the better-than-expected deficit outcome in 2014 and improving cyclical conditions, which puts at risk compliance with the Council recommendation of 10 March 2015. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP. The Commission is also of the opinion that France has made some progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and invites the authorities to make further progress.

The Commission is of the opinion that the Draft Budgetary Plan of **Slovenia**, which is currently under the corrective arm and could become subject to the preventive arm from 2016 in case a timely and sustainable correction of the excessive deficit is achieved, is broadly compliant with the provisions of the Stability and Growth Pact. In particular, there is a risk of some, but close to significant, deviation from the adjustment path towards the MTO in 2016. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP. The Commission is also of the opinion that Slovenia has made some progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and invites the authorities to make further progress.

Plans at risk of non-compliance

The Commission is of the opinion that the Draft Budgetary Plan of **Spain**, which is currently under the corrective arm, is at risk of non-compliance with the provisions of the Stability and Growth Pact. The improvement in the headline budgetary deficit planned in the Draft Budgetary Plan towards correction of the excessive deficit in 2016, the deadline set in the 2013 EDP recommendation, mainly relies on revived nominal GDP growth, with somewhat optimistic underlying growth assumptions in 2016;

expenditure restraint also plays a role but some of the planned savings are not yet underpinned by specified measures. The fiscal effort is projected to fall significantly short of the recommended level, according to all metrics. Based on the ad-hoc Commission forecast, Spain is not expected to ensure compliance with the budgetary headline targets set in the 2013 EDP recommendation. The Commission therefore invites the authorities to strictly execute the 2015 budget and take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the Stability and Growth Pact. In light of the compliance risks highlighted above and the fact that the Draft Budgetary Plan does not include up-to-date and fully specified measures for regional governments, the national authorities are invited to submit an updated Draft Budgetary Plan including fully specified regional measures, as soon as possible. The Commission is also of the opinion that Spain has made some progress towards compliance with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and invites the authorities to make further progress.

ANNEX 2: The methodology and assumptions underpinning the Commission's autumn 2015 forecast

According to Article 7(4) of Regulation (EU) No 473/2013, "the methodology and assumptions of the most recent economic forecasts of the Commission services for each Member State, including estimates of the impact of aggregated budgetary measures on economic growth, shall be annexed to the overall assessment". The assumptions underlying the Commission's autumn 2015 forecast, which is produced independently by Commission staff, are explained in the forecast document itself[1].

Budgetary data up to 2014 are based on data notified by Member States to the Commission before 1 October 2015 and validated by Eurostat on 21 October. Eurostat has withdrawn the reservation on the quality of the government deficit data reported by Portugal, which had been expressed in Eurostat's news release in April 2015, due to uncertainties on the statistical impact of the recapitalization of Novo Banco in 2014. Eurostat has made no amendments to the data reported by Member States during the autumn 2015 notification round. Eurostat has expressed a reservation on the quality of the data reported by Austria in relation to an insufficient adherence to the accrual rules of recording of expenditure and revenue as required in ESA 2010.

For the forecast, measures in support of financial stability have been recorded in line with the Eurostat Decision of 15 July 2009[2]. Unless reported otherwise by the Member State concerned, capital injections known in sufficient detail have been included in the forecast as financial transactions, i.e. increasing the debt, but not the deficit. State guarantees on bank liabilities and deposits are not included as government expenditure, unless there is evidence that they have been called on at the time the forecast was finalised. Note, however, that loans granted to banks by the government, or by other entities classified in the government sector, usually add to government debt.

For 2016, budgets adopted or presented to national parliaments and all other measures known in sufficient detail are taken into consideration. In particular, all the information included in the DBPs submitted by mid-October is reflected in this forecast. For 2017, the 'no-policy change' assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail.

European aggregates for general government debt in the forecast years 2015-17 are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans). To ensure consistency in the time series, historical data are also published on the same basis. For 2014, this implies a debt-to-GDP ratio in the euro area which is 2.4 percentage points higher than the consolidated general government debt ratio published by Eurostat in its news release 186/2015 of 21 October 2015[3]. General government debt projections for individual Member States in 2015-17 include the impact of guarantees to the EFSF[4], bilateral loans to other Member States, and the participation in the capital of the ESM as planned on the cut-off date of the forecast.

According to the Commission's autumn 2015 forecast, the aggregate budgetary measures in the DBPs for 2016 increase the aggregate deficit by around 0.1% of GDP. Expenditure savings are estimated at 0.2% of GDP, while revenue measures, in the aggregate, have a deficit-increasing effect of around 0.3% of GDP. Overall, the mechanical impact on growth in the short-term would be only marginal (less than 0.1 percentage point).

It is important to be prudent in interpreting this estimate:

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1 Methodological assumptions underlying the Commission's autumn 2015 forecast, available at: http://ec.europa.eu/economy_finance/publications/european_economy/forecasts/index_en.htm).

2 Available at: http://ec.europa.eu/eurostat/documents/1015035/2041337/FT-Eurostat-Decision-9-July-2009-3--final-.pdf.

3 Available at: http://ec.europa.eu/eurostat/documents/2995521/7036737/2-21102015-AP-EN.pdf.

4 In line with the Eurostat decision of 27 January 2011 on the statistical recording of operations undertaken by the EFSF, available at: http://ec.europa.eu/eurostat/documents/2995521/5034386/2-27012011-AP-EN.PDF.

- Not acting on fiscal imbalances could heighten financial-asset fragility and lead to higher spreads and lending rates, with a negative impact on growth.
- The Regulation aims at evaluating the effect of the measures taken in the DBPs. So measures taken and having entered into force before the DBP are not included in the assessment (even if they can affect the forecast).
- Measures taken with effect in 2016 can also compensate for existing measures having a one-off impact in 2015 and for the trend increase in expenditure. At the EA-16 aggregate level, the Commission evaluates one-offs in 2015 at 0.0% of GDP and the trend increase in expenditures (as measured by the change in the cyclically-adjusted expenditure ratio) in absence of policy measures at 0% of GDP.

ANNEX 3: Sensitivity analysis

According to Article 7 of Regulation (EU) No 473/2013, "the overall assessment shall include sensitivity analyses that provide an indication of the risks to public finance sustainability in the event of adverse economic, financial or budgetary developments". This Annex therefore presents a sensitivity analysis of public debt developments to possible macroeconomic shocks (to growth, interest rates and the government primary balance), relying on results from stochastic debt projections[5]. The analysis allows gauging the possible impact on public debt dynamics of downside and upside risks to nominal GDP growth, the effects of positive/negative developments on financial markets, translating into lower/higher borrowing costs for governments, and fiscal shocks affecting the government budgetary position. The baseline scenarios to which the shocks are applied are the macro-fiscal projections contained in the Commission's autumn forecast and Member States' DBPs.

With stochastic projections the uncertainty in future macroeconomic conditions is featured in the analysis of public debt dynamics around a 'central' debt projection scenario, which corresponds respectively to the Commission's autumn 2015 forecast scenario and the DBPs' forecast scenario in the two panels of the graph below, reporting results for the EA-16 (in both cases the usual no-fiscal policy change assumption is made beyond the forecast horizon)[6]. Shocks are applied to the macroeconomic conditions (short-term and long-term interest rates on government bonds; growth rate; government primary balance) assumed in the central scenario to obtain the 'cone' (distribution) of possible debt paths presented in the graph below. The cone corresponds to a wide set of possible underlying macroeconomic conditions, with as many as 2000 shocks simulated on growth, interest rates and the primary balance. The size and correlation of the shocks reflect the variables' historical behaviour[7]. This implies that the methodology does not capture real-time uncertainty, which at the present juncture may be higher especially for the output gap. The resulting fan charts in the graph below therefore provide probabilistic information on debt dynamics for the EA-16, taking into account the possible occurrence of shocks to growth, interest rates and the primary balance of a magnitude and correlation mirroring those observed in the past.

The fan charts report the projected debt path under the central scenario (around which macroeconomic shocks are applied) as a dashed line, and the debt projection trajectory that divides into two halves the whole set of possible trajectories obtained by applying the shocks (the median) as a solid black line at the centre of the cone. The cone itself covers 80% of all possible debt paths obtained by simulating the 2000 shocks to growth, interest rates and the primary balance (as the lower and upper lines delimiting the cone represent respectively the 10th and the 90th percentiles of the distribution), thus excluding from the shaded area simulated debt paths (20% of the whole) that result from more extreme (less likely) shocks, or 'tail events'. The differently shaded areas within the cone represent different portions of the overall distribution of possible debt paths. The dark blue area (delimited by the 40th and 60th percentiles) includes the 20% of all possible debt paths that are closer to the central scenario.

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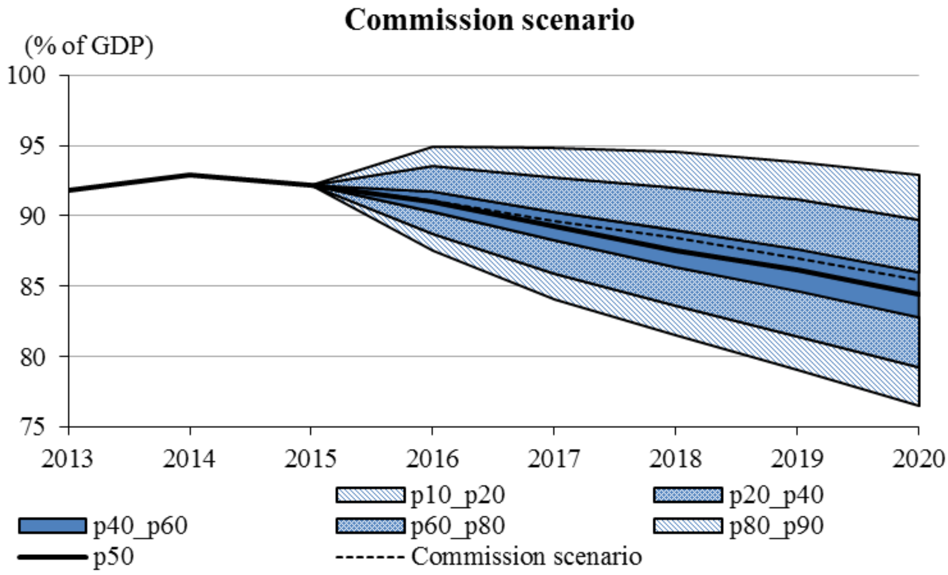
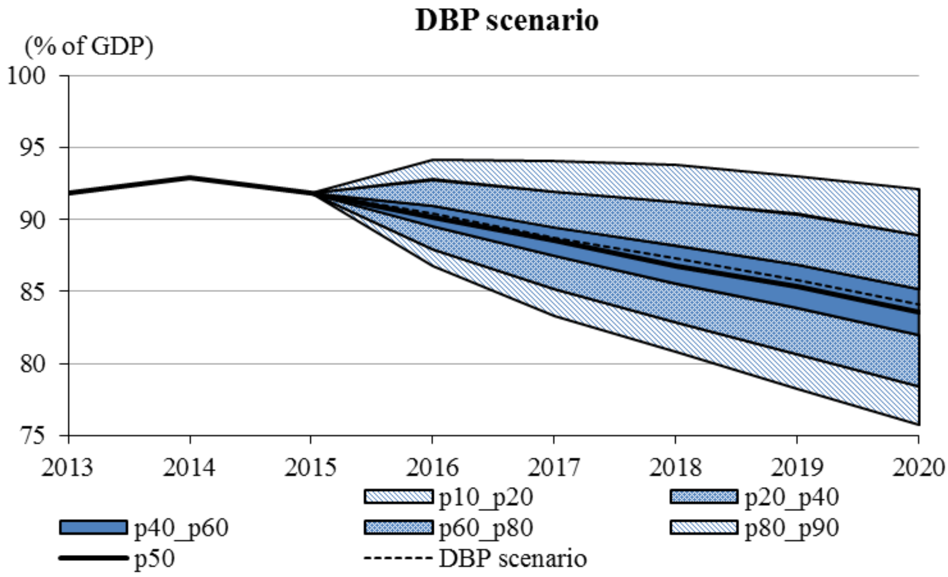
5 The methodology for stochastic public debt projections used here is presented in the European Commission's Fiscal Sustainability Report 2012, Section 3.3.3, and in Berti K. (2013), "Stochastic public debt projections using the historical variance-covariance matrix approach for EU countries", *European Economy*, Economic Paper 480.

6 This entails that the EA-16 structural primary balance is assumed to remain constant at the last forecasted value – a slightly above 1% surplus in 2016 in the DBP scenario, against a 1% surplus in 2017 in the Commission scenario – over the rest of the projection horizon.

7 The assumption is made that shocks follow a joint normal distribution.

Graph A3.1: Fan charts from stochastic public debt projections around the Commission's forecast scenario and the Draft Budgetary Plans' (DBP) forecast scenario





Source: Commission's autumn 2015 forecast, 2016 Draft Budgetary Plans and Commission services calculations.

For both the Commission and the DBP forecast scenario, the fan charts highlight a probability of around 50% of a worse than forecasted debt-to-GDP ratio for the EA-16 in 2016, due to the occurrence of adverse macroeconomic shocks[8]. Accounting for both downside and upside risks to the government primary balance, growth and financial market conditions in the two scenarios leads to a EA-16 debt in 2016 lying between 87% and 94-95% of GDP with an 80% probability (as the cone represents 80% of all possible simulated debt paths). Lower and upper bounds of the debt ratio interval in 2016 would be slightly higher for the Commission scenario compared to the DBP scenario, due to a

[8] In 2016, the dashed line representing forecasts for the central scenario in the two fan charts corresponds, in both the DBP and Commission scenario, with the line indicating the 50th distribution percentile (meaning that 50% of all possible values for the debt-to-GDP ratio in 2016 would lie above the forecasted value).

small difference between the respective central forecasts to which shocks apply (a debt ratio above 91% in the Commission scenario versus 90.4% in the DBP scenario).

Beyond 2016, the horizon of the current DBPs, simulation results show that the difference in projected debt ratios under shocks between the Commission and the DBP scenarios remains limited. At the end of the projection horizon considered in the fan charts (2020), there would be a 50% probability of a debt ratio higher than 84% and 85% of GDP in the DBP and Commission scenarios respectively. This small difference is mainly due to the structural primary balance kept constant at a slightly higher last forecasted surplus in the DBP scenario compared to the Commission scenario.

Note that since the size and correlation of the shocks reflect the variables' historical behaviour, the methodology does not capture real-time uncertainty, such as may exist in particular for assessing the output gap. Bearing in mind the past experience of significant revisions of output gap estimates, often in the direction of lower potential output than thought in real time, this suggests an additional source of risks on future debt paths that is not reflected in the previous analysis.

ANNEX 4: The current low interest rate environment

Recent developments

Euro area sovereign bond yields have fallen sharply since end-2013 and reached historical lows in the first half of 2015, before increasing somewhat during the summer months. However, yields still remain well below their long-term averages, with 10-year rates currently ranging from 0.51% to 1.64% for the four largest Member States in the euro area[9].

As a result of lower interest rates, total interest payments by the general government have also decreased over the last few years. For the EA-16 as a whole, interest expenditure fell from 2.9% of GDP in 2012 to 2.3% in 2015, and is expected to remain unchanged this year, according to this year's vintage of DBPs. The largest declines in interest expenditure over 2012-16 can be seen in Ireland (-1.1% of GDP), Italy (-1.0%), Belgium (-0.9%) and Germany (-0.8%) whereas only Slovenia (0.9% of GDP) has seen its interest expenditure increase over the same period, against the background of a sharp increase in general government debt. The Commission's autumn 2015 forecast is broadly in line with Member States' expectations, with the largest differentials for 2016 amounting to 0.1% of GDP.

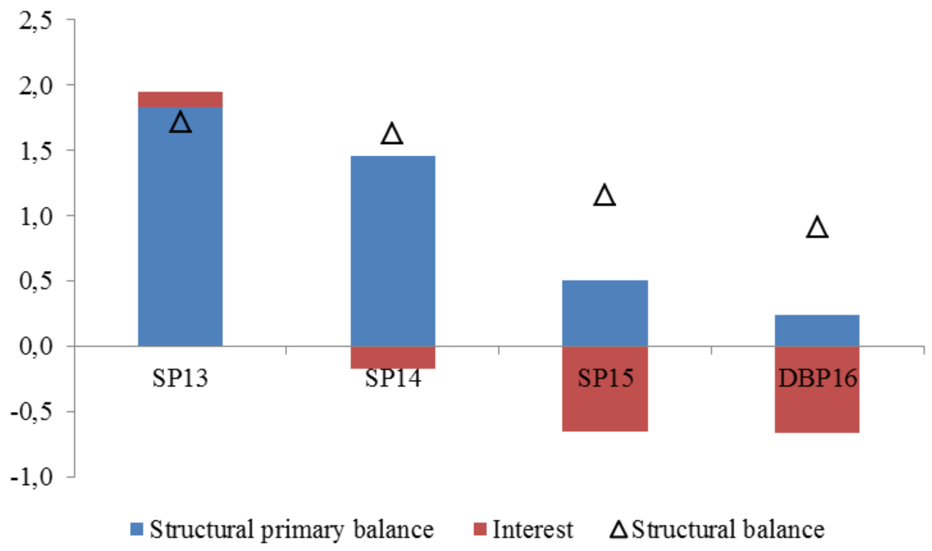
The steep decline in interest rates and the subsequent decrease in interest payments were to a large extent not anticipated by Member States. Examining the successive vintages of Stability Programmes and the current vintage of DBPs sheds more light on the (unexpected) savings from the current low interest rate environment. At the aggregate EA-16 level, the 2013 vintage of Stability Programmes had projected interest expenditure to increase by 0.1% of GDP over 2012-16. By contrast, the 2014 and 2015 vintages, in gradually integrating the fall in interest rates, had projected interest expenditure to decline over that period, by 0.2% and 0.7% of GDP, respectively. The latter projection is also confirmed by the DBPs. While factors such as debt dynamics, the maturity profile of debt and statistical reclassifications (e.g. the switchover to the ESA 2010 standard of national accounts) may have played a role, it is likely that the successive revisions in interest expenditure projections primarily reflect the unexpected decline in interest rates.

Consequences for public finances

The gradual fall in interest expenditure has gone along with a much smaller improvement in the medium-term budgetary position as measured by the structural primary balance. The 2013 SPs had projected the EA-16 structural primary balance to improve by 1¾% of GDP over 2012-16 (Graph A4.1). The improvement as derived from the DBPs is actually expected to be ¼% of GDP. This suggests that, in the aggregate, the planned reduction of the structural primary deficit has to a large extent not materialised. In turn, this has outweighed the lower-than-expected interest paid by Member States over the same period.

[9] 10-year bond yields as of 23 October 2015, 18:25. Source: Bloomberg.

Graph A4.1: Changes in structural (primary) balance and in interest expenditure over 2012-16, government plans



Note: The graph shows the cumulative changes in the structural primary balance, in interest expenditure and in the structural balance over 2012-16 in the EA-16, as derived from the 2013, 2014 and 2015 vintages of Stability Programmes (SP13, SP14 and SP15, respectively) and this year's vintage of Draft Budgetary Plans (DBP16).
Source: Member States' programmes/plans and Commission services calculations.

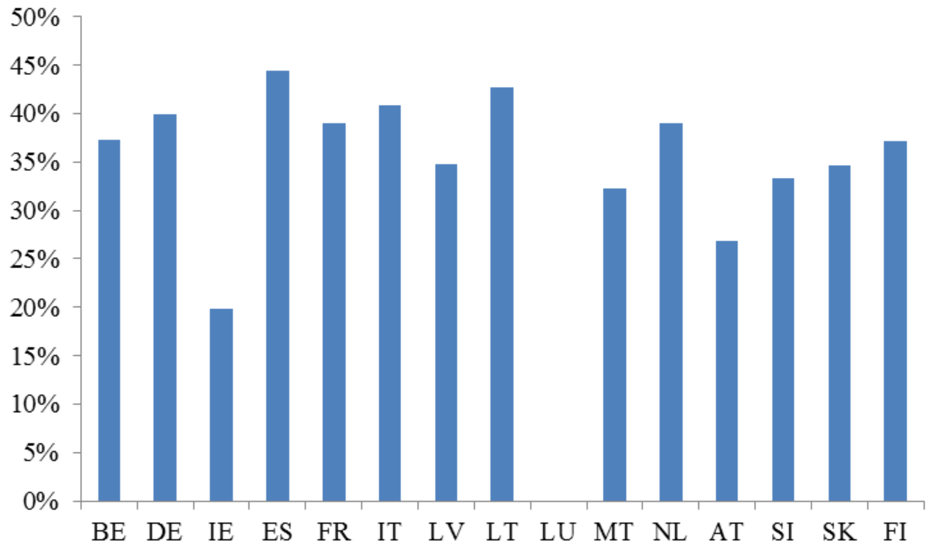
The smaller improvement in the aggregate (primary) structural balance has taken place in the broader context of a protracted period of low inflation and low output growth, which has in turn impacted upon public finances. The fall in interest rates is related to very low nominal GDP growth in the last few years. The latter has affected headline balances negatively through various channels, leading to a fall in revenues much larger than the fall (if any) in primary expenditures. This might not have been fully captured by the standard adjustment of headline balances for the effect of the cycle due, for example, to an abnormal response of revenues to economic growth or to some stickiness in the response of expenditures to price developments. In addition, low nominal GDP growth has had a direct effect on the stock of public debt as a share of GDP. Overall, worse-than-expected primary balances together with a likely higher-than-expected snow-ball effect, which measures the combined impact of interest expenditure and economic growth on the change in the debt ratio, show a much less positive picture than developments in interest expenditure taken in isolation.

Prospects and vulnerability

The cost of servicing debt within the euro area will likely remain historically low in the coming years. Indeed, large amounts of debt have been rolled over since the fall in interest rates and sovereign bond yields are expected to remain relatively low for some time, against the background of a subdued growth outlook, strong private demand for safe assets and the ECB's expanded asset purchase programme (intended to be carried out at last until September 2016).

Future developments in interest rate will affect interest payments differently depending on the maturity profile of debt. The share of outstanding debt to be renewed over the coming years could give an indication of the extent to which individual Member States can further benefit from the low interest rates if the situation remained unchanged and, conversely, shed light on how much Member States could be affected in case of a significant increase in interest rates. In this regard, the situation varies quite substantially across countries, with the proportion of outstanding debt to be renewed by 2018 ranging from 0% in the case of Luxembourg to 44% in the case of Spain (Graph A4.2) [10]. In addition, Member States will have to fund future deficits as they arise.

Graph A4.2: Percentage of debt maturing by 2018



Note: Maturing sovereign debt data as of 18 September 2015. Coverage: Central government.
Source: Bloomberg and Commission services calculations.

Member States' medium-term plans can be considered as built on relatively prudent assumptions. Indeed, the 2015 vintage of Stability Programmes appeared consistent with a gradual increase in long-term sovereign yields, which can be considered a reasonable assumption, to various degrees across Member States[11]. In particular, a number of high-debt countries appeared vulnerable to interest rate risks. By contrast, in the unlikely scenario that interest rates converged to the 2000-10 levels already by the end of the programmes' horizon, i.e. by 2018, interest expenditure would be some 0.5% of GDP higher for the euro area as a whole in 2018 compared to the programmes. A fortiori and in a stress scenario, should interest rates come back to the levels recorded at the peak of the sovereign debt crisis, the increase in interest expenditure would be even higher.

[10] Maturing sovereign debt data as of 18 September 2015. Coverage: Central government. Source: Bloomberg. Note that, for some countries such as Spain, these data include debt issued by other bodies and guaranteed by the central government, which may affect cross-country comparisons.

[11] For further information, see "The 2015 Stability and Convergence Programmes: an Overview", *European Economy*, Institutional Paper 2, July 2015.

ANNEX 5: Graphs and tables

Table A5.1: Headline deficit targets (% of GDP) for the EA-16 according to the Stability Programmes (SP), the Draft Budgetary Plans (DBP) and the Commission's autumn 2015 forecast (COM)

	2015			2016		
Country	**SP**	**DBP**	**COM**	**SP**	**DBP**	**COM**
BE	-2.5	-2.6	-2.7	-2.0	-2.1	-2.6
DE	1/4	1	0.9	0	0	0.5
EE	-0.6	0.0	0.2	-0.1	-0.1	0.2
ES	-4.2	-4.2	-4.7	-2.8	-2.8	-3.6
FR	-3.8	-3.8	-3.8	-3.3	-3.3	-3.4
IE	-2.3	-2.1	-2.2	-1.7	-1.2	-1.5
IT	-2.6	-2.6	-2.6	-1.8	-2.2	-2.3
LT	-1.2	-0.9	-1.1	-1.1	-1.3	-1.3
LV	-1.5	-1.4	-1.5	-1.6	-1.0	-1.2
LU	0.1	0.1	0.0	0.7	0.5	0.5
MT	-1.6	-1.6	-1.7	-1.1	-1.1	-1.2
NL	-1.8	-2.2	-2.1	-1.2	-1.5	-1.5
AT	-2.2	-1.9	-1.9	-1.6	-1.4	-1.6
SI	-2.9	-2.9	-2.9	-2.3	-2.2	-2.4
SK	-2.5	-2.7	-2.7	-1.9	-1.9	-2.4
FI	-3.4	-3.4	-3.2	-3.2	-2.8	-2.7
EA-16	**-2.1**	**-1.9**	**-2.0**	**-1.6**	**-1.7**	**-1.7**

Table A5.2a: Changes in structural balance (% of GDP) for the EA-16 according to the Stability Programmes (SP), the Draft Budgetary Plans (DBP) and the Commission's autumn 2015 forecast (COM)[12]

	2015			2016		
Country	**SP**	**DBP**	**COM**	**SP**	**DBP**	**COM**
BE	0.6	0.6	0.4	0.6	0.8	0.4
DE	-0.4	0.2	0.1	-0.3	-0.9	-0.2
EE	-0.3	0.1	0.0	0.4	-0.3	-0.1
ES	0.3	0.3	-0.7	0.1	0.0	-0.1
FR	0.3	0.2	0.1	0.1	0.2	0.3
IE	1.2	0.5	0.2	0.8	0.9	0.8
IT	0.3	0.2	0.1	0.0	-0.5	-0.5
LT	0.0	0.1	0.2	0.4	-0.5	-0.2
LV	-0.2	-0.2	-0.3	0.3	0.3	0.2
LU	-1.0	-1.5	-1.4	0.1	0.1	0.2
MT	0.8	0.3	0.3	0.9	0.4	0.4
NL	-0.3	-0.6	-0.5	0.0	-0.1	-0.3
AT	-0.4	0.0	0.1	0.1	-0.1	-0.4
SI	0.3	0.1	0.1	0.2	0.4	0.2
SK	0.3	-0.4	0.0	0.4	0.7	0.0
FI	-0.2	-0.1	0.0	-0.4	0.0	0.2
EA-16	**0.0**	**0.2**	**0.0**	**0.0**	**-0.3**	**-0.1**

[12] Cyclically-adjusted balances net of one-off and temporary measures from SPs and DBPs have been recalculated by the Commission on the basis of the information provided in the programmes/plans using the commonly agreed methodology.

Table A5.2b: Changes in structural primary balance (% of GDP) for the EA-16 according to the Stability Programmes (SP), the Draft Budgetary Plans (DBP) and the Commission's autumn 2015 forecast (COM)[13]

	2015			2016		
Country	**SP**	**DBP**	**COM**	**SP**	**DBP**	**COM**
BE	0.3	0.2	0.1	0.3	0.7	0.3
DE	-0.6	0.0	-0.1	-0.4	-1.0	-0.3
EE	-0.3	0.1	0.0	0.4	-0.3	-0.1
ES	0.1	0.0	-1.0	-0.1	-0.2	-0.3
FR	0.2	0.0	-0.1	0.1	0.3	0.4
IE	0.7	-0.3	-0.4	0.5	0.6	0.6
IT	-0.1	-0.1	-0.3	0.0	-0.6	-0.7
LT	0.1	0.2	0.3	0.2	-0.6	-0.3
LV	-0.4	0.0	-0.5	0.3	0.3	0.2
LU	-1.1	-1.6	-1.4	0.0	0.1	0.2
MT	0.5	0.0	0.1	0.8	0.2	0.2
NL	-0.4	-0.8	-0.7	-0.1	-0.2	-0.4
AT	-0.4	-0.1	0.0	0.0	-0.3	-0.5
SI	0.1	-0.1	-0.2	0.0	0.3	0.2
SK	0.1	-0.6	-0.3	0.2	0.6	0.0
FI	-0.3	-0.1	-0.1	-0.5	-0.1	0.2
EA-16	**-0.2**	**-0.1**	**-0.3**	**-0.1**	**-0.3**	**-0.2**

13 Cyclically-adjusted primary balances net of one-off and temporary measures from SPs and DBPs have been recalculated by the Commission on the basis of the information provided in the programmes/plans using the commonly agreed methodology.

Table A5.3: Debt-to-GDP ratio (% of GDP) for the EA-16 according to the Stability Programmes (SP), the Draft Budgetary Plans (DBP) and the Commission's autumn 2015 forecast (COM)

	2015			2016		
Country	**SP**	**DBP**	**COM**	**SP**	**DBP**	**COM**
BE	106.9	107.2	106.7	106.3	107.0	107.1
DE	71 1/2	71 1/4	71.4	68 3/4	68 3/4	68.5
EE	10.3	10.0	10.0	9.9	9.6	9.6
ES	98.9	98.7	100.8	98.5	98.2	101.3
FR	96.3	96.3	96.5	97.0	96.5	97.1
IE	105.0	97.0	99.8	100.3	92.8	95.4
IT	132.5	132.8	133.0	130.9	131.4	132.2
LT	42.2	42.9	42.9	37.7	40.8	40.8
LV	37.0	36.3	38.3	40.0	39.9	41.1
LU	23.9	22.3	22.3	24.2	23.9	23.9
MT	66.8	66.6	65.9	65.6	65.2	63.2
NL	68.8	67.2	68.6	67.8	66.2	67.9
AT	86.8	86.5	86.6	85.7	85.1	85.7
SI	81.6	84.1	84.2	78.7	80.8	80.9
SK	53.4	52.8	52.7	52.8	52.1	52.6
FI	62.5	62.6	62.5	64.4	64.3	64.5
EA-16	**91.4**	**91.1**	**91.6**	**90.1**	**89.8**	**90.5**

Table A5.4: Real GDP growth (%) for the EA-16 according to the Stability Programmes (SP), the Draft Budgetary Plans (DBP) and the Commission's autumn 2015 forecast (COM)

	2015			2016		
Country	**SP**	**DBP**	**COM**	**SP**	**DBP**	**COM**
BE	1.2	1.2	1.3	1.5	1.3	1.3
DE	1.5	1.7	1.7	1.6	1.8	1.9
EE	2.0	1.7	1.9	2.8	2.6	2.6
ES	2.9	3.3	3.1	2.9	3.0	2.7
FR	1.0	1.0	1.1	1.5	1.5	1.4
IE	4.0	6.2	6.0	3.8	4.3	4.5
IT	0.7	0.9	0.9	1.4	1.6	1.5
LT	2.5	1.9	1.7	3.2	3.2	2.9
LV	2.1	2.1	2.4	3.0	3.0	3.0
LU	3.8	3.7	3.1	3.6	3.4	3.2
MT	3.4	4.2	4.3	3.1	3.6	3.6
NL	1.7	2.0	2.0	1.8	2.4	2.1
AT	0.5	0.7	0.6	1.4	1.4	1.5
SI	2.4	2.7	2.6	2.0	2.3	1.9
SK	2.9	3.2	3.2	3.6	3.1	2.9
FI	0.5	0.2	0.3	1.4	1.3	0.7
EA-16	**1.4**	**1.7**	**1.6**	**1.8**	**1.9**	**1.8**

Table A5.5: Composition of fiscal consolidation in 2015 and 2016 for the EA-16 according to the Stability Programmes (SP), the Draft Budgetary Plans (DBP) and the Commission's autumn 2015 forecast (COM)[14]

% potential GDP unless otherwise specified	2015			2016		
	SP	**DBP**	**COM**	**SP**	**DBP**	**COM**
Cyclically-adjusted revenue ratio	46.5	46.7	46.7	46.3	46.2	46.3
p.p. change with respect to previous year	-0.3	-0.2	-0.2	-0.2	-0.4	-0.4
Cyclically-adjusted expenditure ratio	47.4	47.6	47.7	47.1	47.5	47.5
p.p. change with respect to previous year	-0.3	-0.5	-0.4	-0.3	-0.2	-0.2
Change in structural balance	0.0	0.2	0.0	0.0	-0.3	-0.1

[14] Cyclically-adjusted revenue and expenditure ratios as well as cyclically-adjusted balances net of one-off and temporary measures from SPs and DBPs have been recalculated by the Commission on the basis of the information provided in the programmes/plans using the commonly agreed methodology.

Table A5.6: Short-term elasticities underlying revenue projections for 2016 in EA-16: Draft Budgetary Plans (DBP) versus Commission's autumn 2015 forecast (COM) and OECD

Country	DBP	COM	OECD
BE	0.5	1.0	1.0
DE	0.9	1.0	1.0
EE	-0.4	0.8	1.1
ES	1.0	1.1	1.0
FR	0.9	1.0	1.0
IE	0.7	0.7	1.1
IT	2.1	0.8	1.1
LT	0.3	1.1	1.1
LV	-0.2	0.8	0.9
LU	1.3	1.0	1.0
MT	0.1	0.1	1.0
NL	0.9	0.6	1.1
AT	1.3	1.0	1.0
SI	-0.9	-0.1	1.0
SK	-0.5	-0.6	1.0
FI	0.5	1.1	0.9
EA-16	**1.0**	**0.9**	**1.0**

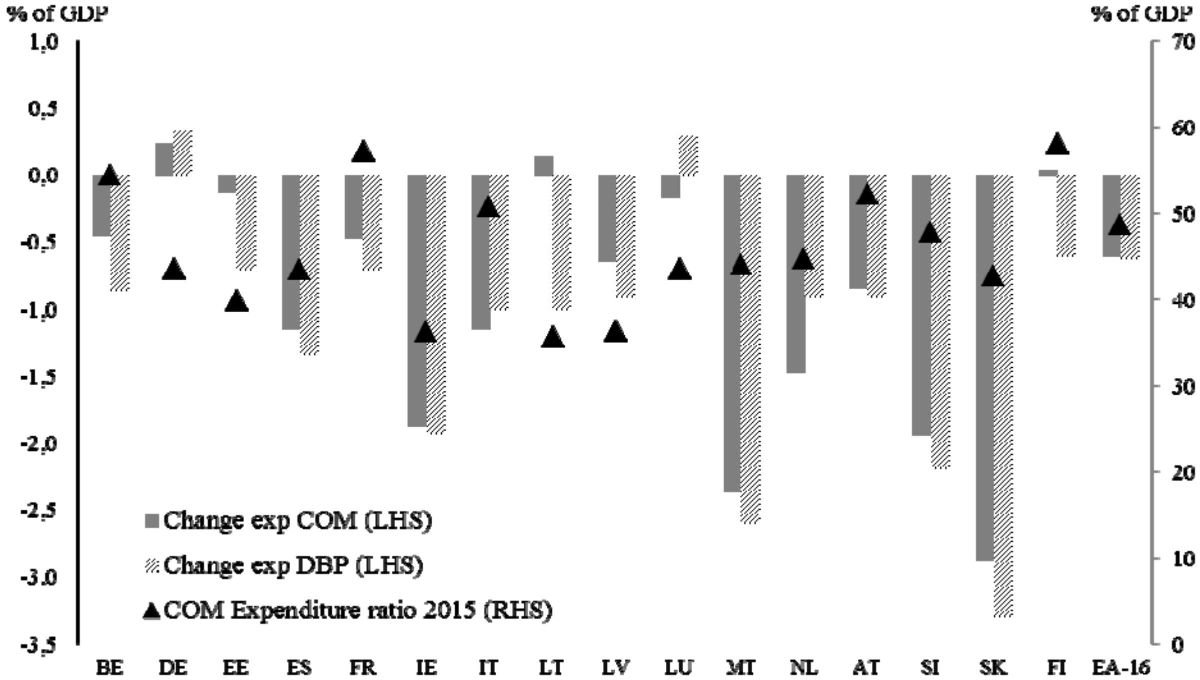
Note: the comparison between the elasticities derived from the DBPs and the Commission's forecast, on the one hand, and the OECD's elasticities, on the other, should be made with care. While the first two are net elasticities to GDP growth, the latter are, strictly speaking, computed with respect to the output gap. Differences are in general minor.

Table A5.7: Discretionary fiscal efforts: Draft Budgetary Plans (DBP) versus Commission's autumn 2015 forecast (COM) and Stability Programmes (SP)[15]

	2015			2016		
Country	**SP**	**DBP**	**COM**	**SP**	**DBP**	**COM**
BE	1.3	0.5	0.3	0.7	1.0	0.1
DE	0.1	0.0	-0.1	0.1	-0.4	-0.3
EE	-2.7	-1.2	-1.6	1.4	1.5	0.2
ES	0.0	1.1	-1.1	-0.1	-0.3	-0.4
FR	0.6	0.1	0.2	0.3	0.5	0.4
IE	0.9	0.9	-0.3	0.6	0.8	1.0
IT	-0.3	-0.5	-0.2	0.4	-0.9	-0.4
LT	-0.2	-1.2	-1.1	0.7	0.7	-0.4
LV	0.3	0.7	-0.2	1.9	0.9	0.5
LU	-0.4	-1.3	-2.0	-0.3	-0.6	0.1
MT	-0.1	0.1	0.4	2.5	2.4	2.3
NL	0.0	0.4	0.4	0.4	0.0	0.2
AT	-0.1	1.5	-0.1	-0.1	-0.1	-0.5
SI	2.9	1.4	0.0	2.2	2.6	1.7
SK	2.9	-1.8	-1.1	0.4	3.1	2.3
FI	-0.4	0.0	0.5	-0.2	0.1	0.0
EA-16	**0.2**	**0.1**	**-0.1**	**0.2**	**-0.1**	**-0.1**

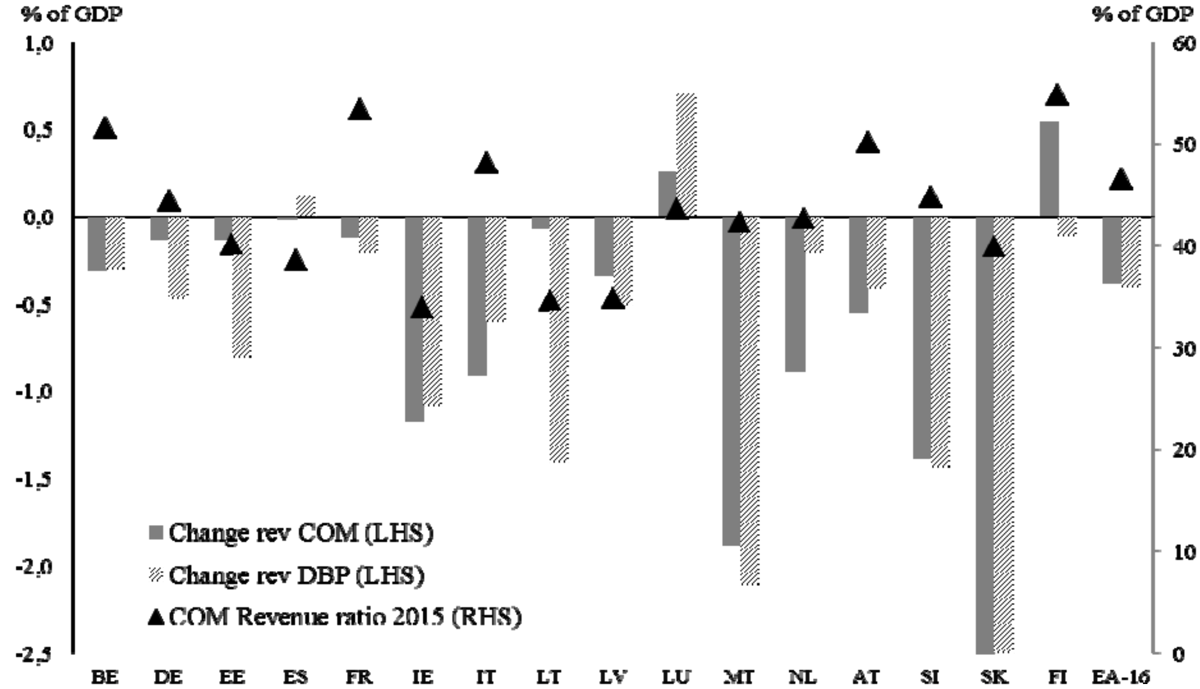
15 The DFE is an alternative indicator of the fiscal stance developed for analytical purposes and is separate from the indicators used to assess compliance under the SGP. It consists of a 'bottom-up' approach on the revenue side and an essentially 'top-down' approach on the expenditure side. For further information, see part III of "Report on Public Finances in EMU 2013", *European Economy*, 4, 2013.

Graph A5.1a: Projected changes in expenditure ratios for 2016 in EA-16: Draft Budgetary Plans (DBP) versus Commission's autumn 2015 forecast (COM)



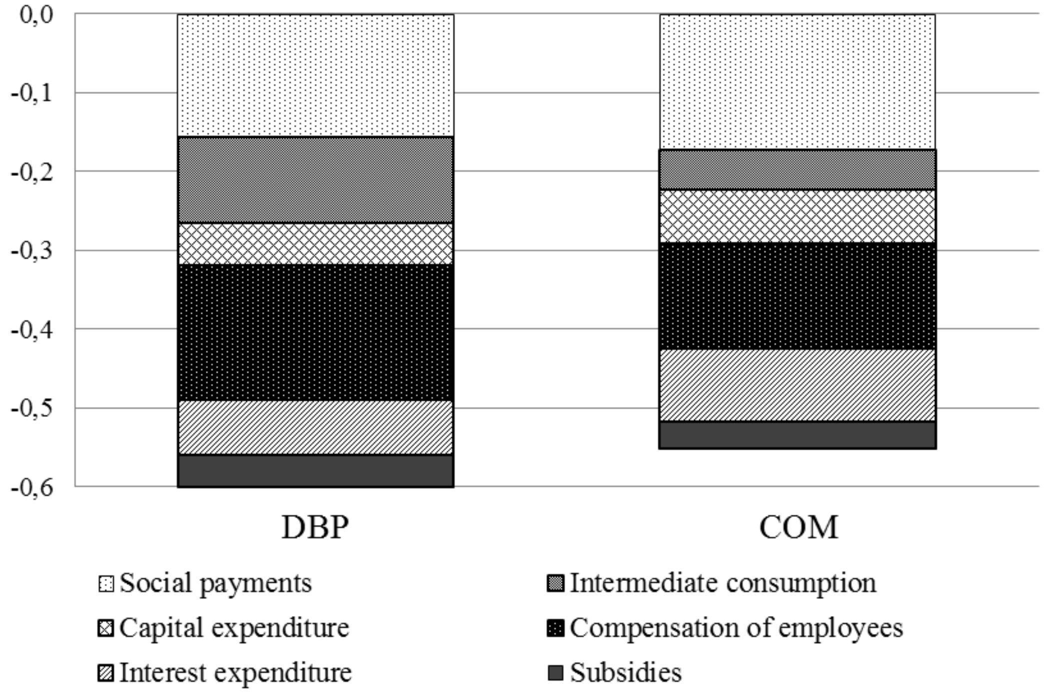
The graph shows the changes in expenditure ratios (lhs) between 2015 and 2016. The expenditure level shown on the RHS represents the Commission forecast's projection of the expenditure ratio in 2015. This differs only slightly from the DBP estimates from which the change in expenditure based on DBP is calculated.

Graph A5.1b: Projected changes in revenue ratios for 2016 in EA-16: Draft Budgetary Plans (DBP) versus Commission's autumn 2015 forecast (COM)



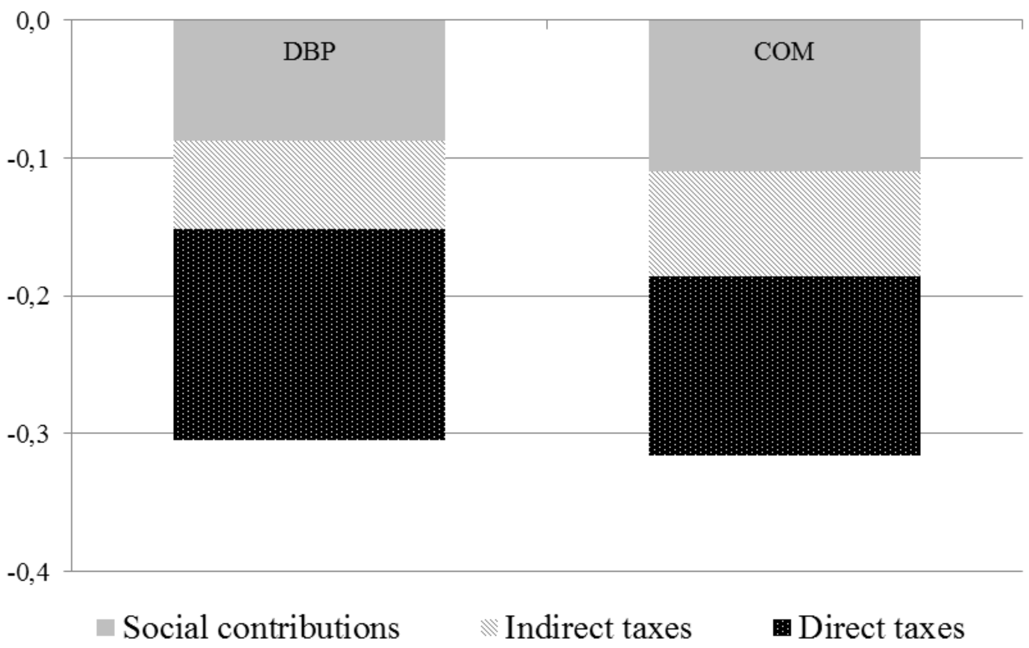
The graph shows the changes in revenue ratios (lhs) between 2015 and 2016. The revenue level shown on the RHS represents the Commission forecast's projection of the revenue ratio in 2015 This differs only slightly from the DBP estimates from which the change in revenue based on DBP is calculated.

Graph A5.2: Projected changes in main types of expenditure (% of GDP) for 2016 in EA-16: Draft Budgetary Plans (DBP) versus Commission's autumn 2015 forecast (COM)



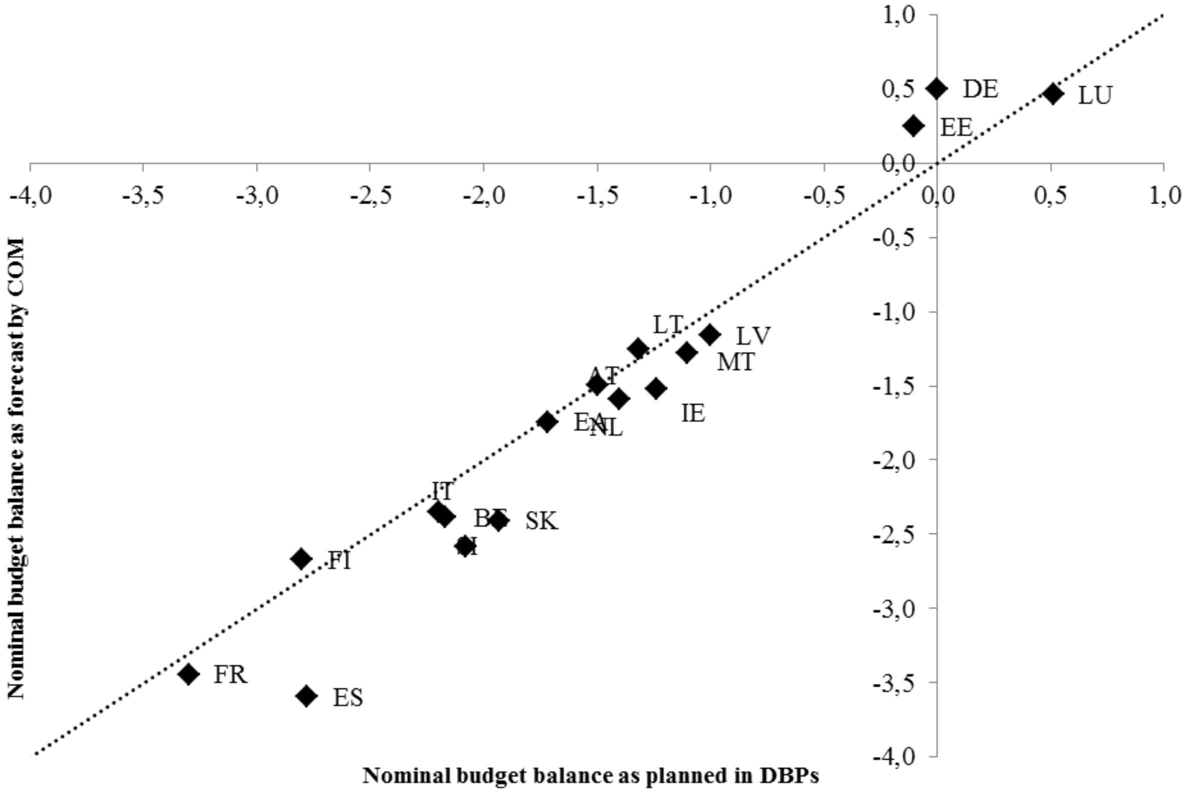
The graph shows the contributions from the main components of expenditure to the projected changes in expenditure-to-GDP ratios.

Graph A5.3: Projected changes in main types of tax revenue (% of GDP) for 2016 in EA-16: Draft Budgetary Plans (DBP) versus Commission's autumn 2015 forecast (COM)



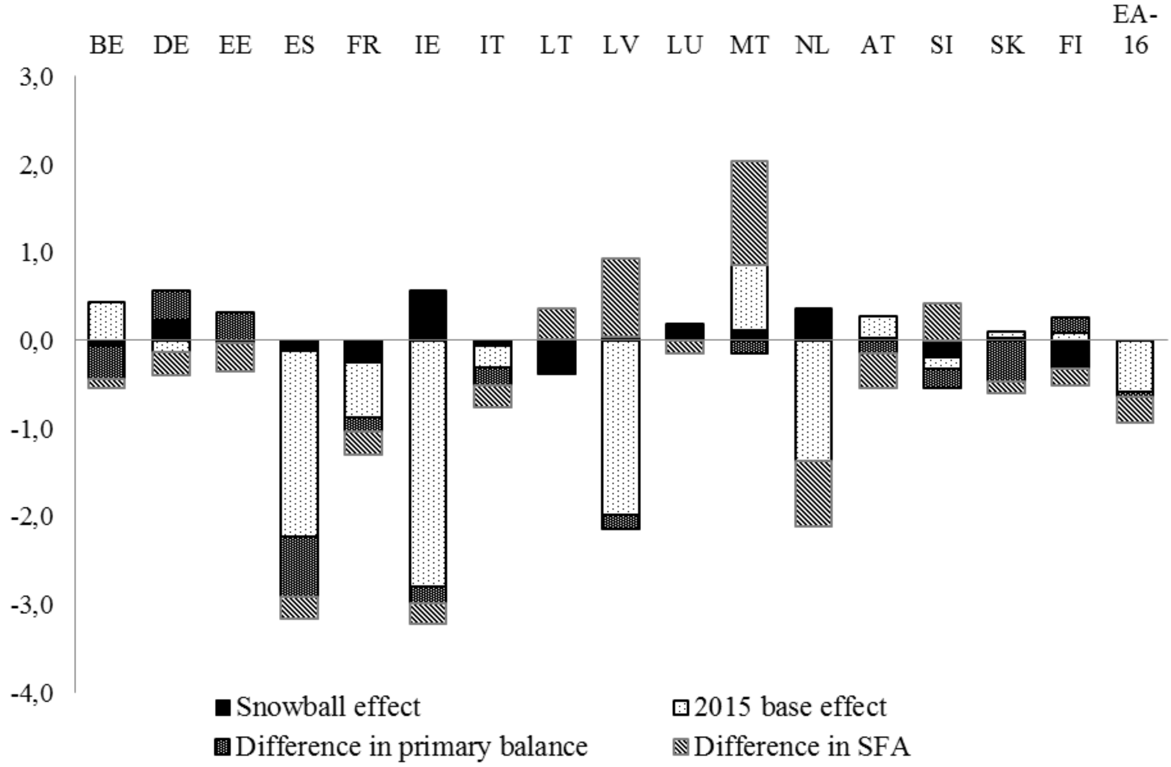
The graph shows the contributions from the main components of revenue to the projected changes in revenue-to-GDP ratios.

Graph A5.4: Comparison of headline government balance (% of GDP) as projected for 2016 by the Commission's autumn 2015 forecast (COM) and by the Draft Budgetary Plans (DBP)



The graph plots the 2016 nominal budget balances from the Commission's forecast (horizontal axis) against those planned in the DBPs (vertical axis). Member States above (below) the bi-sector line are those where the Commission forecasts a higher (lower) nominal balance than the DBPs.

Graph A5.5: Decomposition of the difference in debt targets (% of GDP) for 2016 between the Commission's autumn 2015 forecast and the Draft Budgetary Plans



The graph breaks the projected differences in debt-to-GDP ratios down into differences in base effects, primary balances, stock-flow adjustments and snowball effects. The snowball effect represents the difference between projected growth rates and interest rates.