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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, AND THE EUROPEAN CENTRAL BANK**

**on the 2019 Draft Budgetary Plans: Overall Assessment**

### Executive summary

This Communication summarises the Commission's assessment of the 2019 Draft Budgetary Plans submitted by euro-area Member States, including no-policy change plans submitted by the governments of Latvia and Luxembourg, which held national elections in October, and Slovenia, where a new government took office on 13 September 2018. Italy submitted its Draft Budgetary Plan on 16 October 2018 and, following the Commission Opinion of 23 October 2018 which identified a particularly serious non-compliance, submitted a revised Draft Budgetary Plan on 13 November 2018. Following the completion of the European Stability Mechanism stability support programme on 20 August 2018, Greece has submitted its first Draft Budgetary Plan this autumn. In line with Regulation (EU) No 473/2013, the Commission has assessed those plans and the overall budgetary situation and fiscal stance in the euro area as a whole.

The overall assessment of the 2019 Draft Budgetary Plans and the aggregate fiscal stance for the euro area can be summarised as follows:

1. The euro area growth outlook, while remaining positive, has weakened since the spring assessment round, with the Commission and Member States revising their 2018 growth projections downwards and growth expected to ease again in 2019. While the economy is forecast to grow above its potential in both 2018 and 2019, and inflation is expected to stand close to 2%, the euro-area economy is entering a less dynamic period after five years of continuous GDP growth. The outlook is clouded by numerous uncertainties and subject to large and interconnected downside risks.
2. The Commission 2018 autumn forecast projects the aggregate euro-area headline deficit, which has been on a continuous downward trend since 2010, to fall to 0.6% of GDP in 2018 but then to increase to 0.8% of GDP in 2019. It would be the first increase in the euro-area aggregate deficit since its peak in 2009. The Draft Budgetary Plans target the same path for the headline deficit.
3. For the first time since the creation of the euro, no euro area Member State is forecast to have a deficit above the 3% of GDP reference value in 2019, according to the Commission 2018 autumn forecast. Of those Member States that are forecast to have a deficit in 2019, six are expected to have a deficit below 2% of GDP. Ten Member States are expected to have a surplus in 2019.
4. The Commission forecasts the euro-area debt-to-GDP ratio to continue its declining trend of recent years and to fall from around 87% in 2018 to around 85% in 2019. This is thanks to planned primary budget surpluses, favourable macroeconomic conditions, and continued low interest rates. The Draft Budgetary Plans target a similar reduction in the euro-area debt-to-GDP ratio. Prima facie, Italy is expected to have large deviations from the debt reduction benchmark in 2018 and 2019, with its debt-to GDP ratio projected to remain broadly stable at around 131%. To a lesser extent, Belgium is also projected not to be compliant with the debt reduction benchmark in both years. Since the abrogation of their Excessive Deficit Procedures in 2016 and 2017, respectively, Portugal and France have been subject to the transitional debt rule. Portugal is projected to meet the transitional debt rule in 2018 but not in 2019, while France is not projected to meet it in either year. If Spain makes a durable correction of its excessive deficit in 2018, it will become subject to the transitional debt rule in 2019 and is currently not projected to meet the required adjustment.
5. The number of Member States at or above their medium-term budgetary objectives is

projected to increase from seven to eight between 2018 and 2019, according to the Commission 2018 autumn forecast, with Austria moving just above its medium-term objective in 2019. Spain, Italy and France are forecast to remain notably far below their medium-term objectives in 2019. Of those Member States that are not yet at their medium-term objectives and that have submitted a full Draft Budgetary Plan, the Commission currently projects that Italy will move even further away from its medium-term objective in 2019. By contrast, Estonia and France are expected to make some adjustment towards their medium-term objectives, while others are expected to remain in broadly unchanged positions.

6. In contrast to the 2018 spring forecast, which projected an ongoing reduction in the euro-area aggregate structural deficit, the Commission now projects the structural deficit to increase by 0.3% of potential GDP in 2019. That increase is in particular driven by a projected increase in Italy's structural deficit by 1.2% of potential GDP. Expansionary fiscal policies expected in Member States with fiscal space, notably Germany and the Netherlands, also contribute to the change in the aggregate euro-area figure. Excluding Italy, the projected aggregate euro-area fiscal stance in 2019 would be broadly neutral. The projected change for the euro area as a whole is in line with the change in the (recalculated) structural balance in the Draft Budgetary Plans. The structural primary balance, which does not include interest expenditure, points to a similarly expansionary stance. The Discretionary Fiscal Effort, an indicator that is close to the expenditure benchmark of the Stability and Growth Pact, points to a somewhat more expansionary stance (0.4% of potential GDP) in 2019, according to the Commission 2018 autumn forecast.
7. Regarding the composition of the euro-area fiscal adjustment, the Commission expects the increase in the structural deficit in 2019 to be driven by a fall in the cyclically-adjusted revenue-to-GDP ratio. That expectation is similar to the Draft Budgetary Plans and is due to the impact of reported discretionary revenue cuts and expected revenue shortfalls. The cyclically-adjusted expenditure ratio is expected to remain unchanged in 2019 in both the Commission 2018 autumn forecast and the Draft Budgetary Plans, despite a further, albeit small, decline in interest expenditure between 2018 and 2019. Windfalls from lower interest expenditure should be used to accelerate debt reduction.
8. Member States continue to have very different fiscal positions in terms of debt and sustainability challenges. Only Cyprus faces short-term fiscal sustainability risks, with the Commission's S0 indicator being just above its critical threshold. The short-term sustainability of Italian public finances appears vulnerable to further increases in the cost of debt issuance. Some highly-indebted Member States face high medium-term risks, based on factors such as current debt levels, the current primary balance, and projected ageing-related costs. Several of those Member States plan either a rather limited fiscal adjustment (Belgium, Spain, France and Portugal) or a fiscal expansion (Italy) in 2019. In the cases of Belgium, Spain and Portugal, the Commission forecasts no fiscal adjustment in 2019, while the expansion in Italy is expected to be larger than the one included in the Draft Budgetary Plan. These Member States do not sufficiently take advantage of the prevailing favourable macroeconomic conditions and an accommodative monetary policy to rebuild fiscal buffers. Failure to reduce public debt increases the risk of heightened market pressure on Member States with high public debt, which could have negative spill-over effects on the public debt markets of other euro-area Member States.
9. At the same time, some Member States with fiscal space and large current account surpluses plan to use some of their fiscal space in 2019, as confirmed by the Commission 2018 autumn forecast. In particular, Germany and the Netherlands plan fiscal expansions in 2019. That approach is in line with the Commission's past fiscal policy recommendations. An increase in public investment in these Member States would generate positive spill-overs to the rest of the

euro area. However, the fiscal expansions planned by those Member States are only partly oriented towards public investment.

10. Due to the lack of fiscal adjustment in some highly-indebted Member States, fiscal policies are insufficiently differentiated, resulting in a slightly expansionary and pro-cyclical fiscal stance for the euro area as a whole. Compliance with the Stability and Growth Pact, along with the partial use of the fiscal space in some Member States, would result in a broadly neutral to mildly restrictive fiscal stance for the euro area as a whole in 2019. Such a fiscal stance would contribute to a broadly balanced overall policy mix, given the continued support to the economy from monetary policy, and would reduce the risks of financial instability.

The Commission's assessment of individual Member States' plans can be summarised as follows:

The revised Draft Budgetary Plan of **Italy** is still found to be in particularly serious non-compliance with the requirements of the Stability and Growth Pact as it plans for 2019 a significant deviation from the recommended adjustment path towards the medium-term budgetary objective, given the large projected deterioration in the structural balance and a growth rate of government expenditure, net of discretionary revenue measures and one-offs, well above the reference rate. Moreover Italy's independent fiscal monitoring institution has not endorsed the macroeconomic forecast underlying the 2019 Draft Budgetary Plan, because of the significant downside risks to the projections.

For the other Member States, the Commission has in some cases identified risks that the planned fiscal adjustment falls short of what is required by the Stability and Growth Pact.

**Regarding the Member States in the preventive arm of the Stability and Growth Pact:**

- for ten Member States (**Germany, Ireland, Greece, Cyprus, Lithuania, Luxembourg, Malta, the Netherlands, Austria, and Finland.**), the Draft Budgetary Plans are found to be **compliant** with the requirements for 2019 under the Stability and Growth Pact. For Austria and Finland, that finding is dependent on the projected achievement of the medium-term budgetary objective, taking into account any allowance where relevant. If such a projection is not confirmed in future assessments, the overall assessment of compliance will need to take into account the extent of the deviation from the requirement set by the Council.

- for three Member States (**Estonia, Latvia, and Slovakia**), the Draft Budgetary Plans are found to be **broadly compliant** with the requirements for 2019 under the Stability and Growth Pact. For those Member States, the implementation of the plans might result in some deviation from their medium-term budgetary objective, taking into account any allowances where relevant. If the structural balance is no longer projected to be close to the medium-term budgetary objective in future assessments, the overall assessment of compliance will need to take into account the extent of the deviation from the requirement set by the Council.

- for four Member States (**Belgium, France, Portugal, and Slovenia**), the Draft Budgetary Plans pose a **risk of non-compliance** with the requirements for 2019 under the Stability and Growth Pact. The implementation of the Draft Budgetary Plans of those Member States might result in a significant deviation from the adjustment paths towards their respective medium-term budgetary objectives. For **Belgium, France, and Portugal** non-compliance with the (transitional) debt reduction benchmark is also projected.

**Regarding the remaining Member State in the corrective arm of the Stability and Growth Pact (i.e. in Excessive Deficit Procedure):**

-for **Spain**, which could become subject to the preventive arm from 2019 onwards if a timely and sustainable correction of the excessive deficit is achieved, the Draft Budgetary Plan is found to be **at risk of a non-compliance** with the requirements for 2019 under the Stability and Growth Pact, as the Commission 2018 autumn forecast projects a significant deviation from the required adjustment path towards the medium-term budgetary objective and non-compliance with the transitional debt reduction benchmark in 2019.

## I. Introduction

EU legislation requires that euro-area Member States submit Draft Budgetary Plans for the following year to the Commission by 15 October with the aim of improving coordination of national fiscal policies in the Economic and Monetary Union.<sup>1</sup>

Those plans summarise the draft budgets that governments submit to national parliaments. On each plan, the Commission provides an Opinion, assessing whether it is compliant with the Member State's obligations under the Stability and Growth Pact.

The Commission is also required to provide an overall assessment of the budgetary situation and prospects for the euro area as a whole.

In line with the indications of the Two-Pack Code of Conduct<sup>2</sup>, Luxembourg and Latvia submitted no-policy change Draft Budgetary Plans due to the holding of national elections in October. The government of Slovenia, which took office on 13 September 2018, also submitted a no-policy change plan. Those governments are expected to submit full Draft Budgetary Plans as soon as possible. Italy submitted its Draft Budgetary Plan on 16 October 2018 and, following the Commission Opinion of 23 October 2018 which identified a particularly serious non-compliance, submitted a revised Draft Budgetary Plan on 13 November 2018. Following the completion of the European Stability Mechanism stability support programme on 20 August 2018, Greece has submitted its first Draft Budgetary Plan this autumn.

While respecting Member States' budgetary competence, the Commission's Opinions provide objective policy advice, in particular for national governments and parliaments, to facilitate the assessment of the draft budgets' compliance with Union fiscal rules. Regulation (EU) No 473/2013 provides for a comprehensive toolbox to treat economic and budgetary policy as a matter of common concern within the euro area, as intended by the Treaty.

In November 2017, the Commission proposed an updated Recommendation on the economic policy for the euro area, which was discussed in Council and endorsed by EU leaders at the European Council meeting on 22 March 2018.<sup>3</sup> That recommendation is an anchor for the Commission's assessment.

The objective of this Communication is twofold. Firstly, it provides an aggregate picture of budgetary policy at the level of the euro area, building on a horizontal assessment of the Draft Budgetary Plans. That exercise mirrors the horizontal assessment of Stability Programmes that takes place in the spring, but with a focus on the forthcoming year rather than on medium-term fiscal plans. Secondly, it provides an overview of the Draft Budgetary Plans at Member State-level, explaining the Commission's approach in assessing them, specifically for compliance with the requirements of the Stability and Growth Pact. The assessment is differentiated according to whether a Member State is in the preventive or the corrective arm

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<sup>1</sup> As set out in Regulation (EU) No 473/2013 on common provisions for monitoring and assessing Draft Budgetary Plans and ensuring the correction of excessive deficits of the Member States in the euro area. It is one of the two Regulations in the so-called Two-Pack which entered into force in May 2013.

<sup>2</sup> See the Two-Pack Code of Conduct:  
[http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/pdf/coc/2014-11-07\\_two\\_pack\\_coc\\_amended\\_en.pdf](http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2014-11-07_two_pack_coc_amended_en.pdf)

<sup>3</sup> Council Recommendation of 14 May 2018, OJ C 179, 25.5.2018.:  
<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:C:2018:179:TOC>

of the Stability and Growth Pact and also takes into account the requirements relating to the level and dynamics of government debt.

## II. Main euro area findings

### *Economic outlook according to Member States' plans and the Commission forecast*

**The euro area's growth outlook, while remaining positive, has weakened since the spring assessment round.** According to the Commission's autumn 2018 forecast, aggregate real GDP growth in the euro area is expected to fall from 2.4% in 2017 to 2.1% in 2018 and 1.9% in 2019, similar to the macroeconomic assumptions contained in the Draft Budgetary Plans (Table 1). The forecast for 2018 has been reduced by 0.2 percentage points compared to the Commission 2018 spring forecast and 0.3 percentage points compared to the Stability Programmes, and the forecast for 2019 has been revised lower by 0.1 percentage points compared to spring.<sup>4</sup> The macroeconomic scenarios contained in the Draft Budgetary Plans are generally very similar to Commission forecasts for individual Member States, partly reflecting the fact that all Member States are required to base the draft budgets on independently endorsed or produced macroeconomic forecasts. For Germany, the macroeconomic forecast was endorsed for the first time by the Joint Economic Forecast project group, as part of a new forecasting arrangement. The macroeconomic assumptions underlying the Italian Draft Budgetary Plan have not been endorsed by the Member State's independent fiscal institution. Moreover, the Belgian Draft Budgetary Plan is not based on the most recent independent forecast of the Federal Planning Bureau. The Commission projects notably lower growth than the Draft Budgetary Plans for Greece and Luxembourg and Malta (Annex IV Table 1).

**Despite the expected mild slowdown in economic growth, the aggregate euro-area output gap is forecast to have turned positive in 2018 and to widen in 2019.** With the exceptions of Greece and Italy, the Commission autumn 2018 forecast projects positive output gaps for all Member States in 2018. That conclusion is also the case for the recalculated output gaps on the basis of the Draft Budgetary Plans.<sup>5</sup> While the aggregate positive output gap is expected to widen further in 2019, developments in individual Member States are mixed, both on the basis of the Commission 2018 autumn forecast and the (recalculated) Draft Budgetary Plans. Only Greece is expected to maintain a negative output gap in 2019, although it is forecast to narrow considerably.

**Headline inflation is expected to move closer to the European Central Bank's definition of price stability in 2018 and to remain broadly unchanged in 2019.** The Commission expects headline inflation to reach 1.8% in 2018, mostly driven by higher energy prices. In their Draft Budgetary Plans, most Member States have increased their 2018 forecasts for headline inflation, giving rise to an aggregate euro-area forecast of 1.7% (an increase of 0.3 percent points compared to the Stability Programmes). Both the Draft Budgetary Plans and the Commission expect headline inflation to remain around the same level in 2019.

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<sup>4</sup> All of the euro-area aggregates based on the 2018 Stability Programmes exclude Greece, which did not submit a Stability Programme in 2018 as it was subject to an economic adjustment programme. Figures for Greece are included, however, in euro-area aggregates based on the Draft Budgetary Plans. Given the relatively small size of the Greek economy, that factor has a limited impact on the comparability of euro-area aggregates.

<sup>5</sup> The output gap included in the Draft Budgetary Plans is recalculated by the Commission on the basis of the information provided in the plans and using the commonly agreed methodology.



**Overall, GDP in the euro area is expected to enter a less dynamic period after five years of continuous growth.** Support for economic activity is set to continue on the back of strong fundamentals behind private consumption and investment. At the same time, waning momentum for foreign trade, slower employment growth and a general increase in uncertainty are expected to weigh on growth. According to the Commission autumn 2018 forecast, the balance of risks is tilted to the downside. Overheating in the USA could alter the risk attitude of investors with detrimental effects on the USA economy, given the high level of corporate leverage, and on emerging market economies, resulting in negative spillovers to advanced economies. Furthermore, disruptive sovereign-bank loops could re-emerge in some high-debt euro area Member States, which could raise financial stability concerns in an environment of overall risk repricing and monetary policy normalisation.

**Table 1: Overview of economic and budgetary aggregates (EA-18) for 2018-2019**

|   | 2017                                       | 2018                              |                                 |  | 2019                              |                                 |  |
|---|--|-----------------------------------|---------------------------------|--|-----------------------------------|---------------------------------|--|
|   | Commission 2018 autumn forecast (November) | 2018 Stability Programmes (April) | Draft Budgetary Plans (October) | Commission 2018 autumn forecast (November) | 2018 Stability Programmes (April) | Draft Budgetary Plans (October) | Commission 2018 autumn forecast (November) |
| <b>Real GDP growth</b><br>(% change)                              | 2.4  | 2.4                               | 2.1                             | 2.1  | 2.0                               | 2.0                             | 1.9  |
| <b>HICP inflation</b><br>(% change)                               | 1.5  | 1.4                               | 1.7                             | 1.8  | 1.5                               | 1.8                             | 1.8  |
| <b>Output gap</b><br>(% of potential GDP)                         | -0.2                                       | 0.4                               | 0.4                             | 0.3  | 0.8                               | 0.7                             | 0.6  |
| <b>Headline balance</b><br>(% GDP)                                | -1.0                                       | -0.7                              | -0.6                            | -0.6                                       | -0.3                              | -0.8                            | -0.8                                       |
| <b>Primary balance</b><br>(% GDP)                                 | 1.0  | 0.4                               | 1.2                             | 1.2  | 1.1                               | 1.0                             | 1.0  |
| <b>Structural balance</b><br>(% GDP)                              | -0.8                                       | -0.8                              | -0.8                            | -0.7                                       | -0.6                              | -1.0                            | -1.0                                       |
| <b>Change in structural balance</b><br>(% GDP)                    | 0.2  | -0.2                              | 0.1                             | 0.1  | 0.3                               | -0.3                            | -0.3                                       |
| <b>Public debt</b><br>(% GDP)                                     | 88.9                                       | 85.3                              | 87.3                            | 86.9                                       | 83.0                              | 85.1                            | 84.9                                       |
| <b>Cyclically-adjusted expenditure ratio</b><br>(% potential GDP) | 47.0                                       | 46.9                              | 47.1                            | 46.9                                       | 46.4                              | 47.1                            | 46.9                                       |
| <b>Cyclically-adjusted revenue ratio</b><br>(% potential GDP)     | 46.1                                       | 46.0                              | 46.2                            | 46.0                                       | 45.7                              | 45.8                            | 45.7                                       |

*Source: 2018 Stability Programmes, 2019 Draft Budgetary Plans, European Commission 2018 autumn forecast.*

### ***Fiscal outlook according to the plans and the Commission 2018 autumn forecast***

**The aggregate euro-area headline deficit is expected to continue its recent declining trend in 2018 but to increase in 2019.** The euro-area headline deficit is expected to fall to 0.6% of GDP in 2018, according to both the Commission 2018 autumn forecast and the Draft Budgetary Plans (Table 1). That level is lower than the deficit projected in the Commission 2018 spring forecast and the 2018 Stability Programmes. Country developments are mixed, with Spain and Italy expected to have larger deficits (compared to the Commission 2018 spring forecast), while Estonia, Cyprus, Luxembourg and the Netherlands are expected to

have larger surpluses (Annex IV Table 2). The aggregate euro-area deficit is projected to increase to 0.8% of GDP in 2019, according to both the Commission autumn 2018 forecast and the Draft Budgetary Plans. That level represents an increase compared to the Commission 2018 spring forecast (+0.2% of GDP) and the 2018 Stability Programmes (+0.5% of GDP), mainly driven by higher expected deficits in Belgium, Spain, France and Italy, and a lower surplus in Germany. It would represent the first increase in the aggregate euro-area headline deficit since its peak in 2009.

**For the first time since the creation of the euro, no euro area Member State is forecast to have a deficit above the 3% reference value in 2018.** Spain is expected to correct its excessive deficit in 2018, with the headline deficit projected to fall to 2.7% in the Commission 2018 autumn forecast, the same as the target contained in Spain's Draft Budgetary Plan (Annex IV Table 2). Of those Member States forecast to have a deficit in 2019, six are expected to have a deficit below 2% of GDP. Nine Member States are expected to have a surplus in 2018. According to the Commission forecast, that group is expected to increase to ten Member States in 2019, with Austria moving to a balanced position. Overall, there are limited differences between Member States' projected fiscal balances in 2019 as per the Draft Budgetary Plans and the Commission 2018 autumn forecast (Annex IV Graphs 1 and 2), although non-negligible negative differences are evident for Italy, Spain and Portugal.

**The euro-area aggregate primary balance, obtained by removing interest expenditures from the headline balance, is expected to remain in surplus in 2018 and 2019.** According to both the Commission 2018 autumn forecast and the Draft Budgetary Plans, the euro-area aggregate primary balance is forecast to increase from 1% of GDP in 2017 to 1.2% of GDP in 2018 (Table 1). That level represents a significant upward revision compared to the 2018 Stability Programmes.<sup>6</sup> Only Spain, France and Latvia are expected to have negative primary balances in 2018 (Annex IV Table 3). The aggregate euro area primary balance is expected to fall slightly to 1% of GDP in 2019, according to both the Draft Budgetary Plans and the Commission 2018 autumn forecast. Germany and Italy are expected to have particularly large reductions in their primary balances in 2019. France and Latvia are expected to still have negative primary balances in 2019. In both years, differences between Member States' and the Commissions' projections are overall limited, although the Commission expects the primary balances of Spain, Latvia and Portugal to be more than 0.3% of GDP lower in 2019 compared to the Draft Budgetary Plans.

**In contrast to the 2018 Stability Programmes, the implementation of the Draft Budgetary Plans would result in a slightly expansionary fiscal stance for the euro area (as measured by the change in the structural balance) in 2019.**<sup>7</sup> Both the Commission 2018 autumn forecast and the (recalculated) Draft Budgetary Plans project a broadly unchanged aggregate structural balance in 2018 (Table 1). This is also broadly in line with the 2018 Stability Programmes, although it masks some changes in individual Member States (Annex IV Tables 4 and 5). The structural balance is forecast to deteriorate by 0.3% of

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<sup>6</sup> While the aggregate euro-area primary balance targeted in the Draft Budgetary Plans has improved compared to the 2018 Stability Programmes, projected interest expenditure for 2018 has also increased. Those two changes largely offset each other, leading to a broadly unchanged target for the euro-area aggregate headline balance (Table 1).

<sup>7</sup> The structural balance is the cyclically-adjusted balance net of one-off and temporary measures. The structural balances of the Draft Budgetary Plans are recalculated by the Commission on the basis of the information provided in the programme using the commonly agreed methodology.

potential GDP in 2019, in both the (recalculated) Draft Budgetary Plans and the Commission 2018 autumn forecast. That deterioration is in contrast to the 2018 Stability Programmes, which envisaged an improvement in the aggregate euro-area structural balance by 0.3% of potential GDP in 2019. The deterioration in the structural balance is in particular driven by a projected increase in Italy's structural deficit by 1.2% of potential GDP. Expansionary fiscal policies expected in Member States with fiscal space, notably Germany and the Netherlands, also contribute to the change in the aggregate euro-area figure. Excluding Italy, the projected aggregate euro-area fiscal stance in 2019 would be broadly neutral, with the structural deficit expected to increase by 0.1% of potential GDP. The projected change for the euro area as whole is in line with the change in the (recalculated) structural balance in the Draft Budgetary Plans (Annex IV Graph 3).

**The Discretionary Fiscal Effort points to an expansionary euro-area fiscal stance in both 2018 and 2019.** The DFE is conceptually close to the expenditure benchmark.<sup>8</sup> On the basis of the Commission 2018 autumn forecast, the Discretionary Fiscal Effort points to a fiscal expansion of around 0.4% of GDP in both 2018 and 2019.<sup>9</sup> The Discretionary Fiscal Effort calculated on the basis of the Draft Budgetary Plans points to a slightly smaller expansion in 2019 (0.3% of potential GDP), in line with the fiscal policy orientation indicated by the change in the structural balance (Annex IV Graph 4).

**The number of Member States at or above their medium-term budgetary objectives is expected to increase between 2018 and 2019.** According to the Commission 2018 autumn forecast, seven euro-area Member States are expected to be above their medium-term objectives in 2018 (Germany, Ireland, Cyprus, Lithuania, Luxembourg, Malta and the Netherlands) (Annex IV Table 5).<sup>10</sup> All of them are projected to remain at or above their medium-term objectives in 2019, although Germany, Cyprus, and the Netherlands plan to use some of their fiscal space (Annex IV Graphs 7a and 7b). Austria is also expected to be slightly above its medium-term objective in 2019. A number of Member States are expected to remain notably far below their medium-term objectives in 2019, according the Commission 2018 autumn forecast, i.e. Spain (-3.1 pps.), Italy (-3 pps.) and France (-1.9 pps.) (Annex IV Table 6 and Graphs 7a/7b). Of those Member States that are not yet at their medium-term objective, the Commission forecasts that Italy and Slovenia will move even further away from their medium-term objectives in 2019. By contrast, Estonia, France and Finland are expected to make some adjustment towards their medium-term objectives in 2019, while Belgium, Spain, Latvia, Portugal and Slovakia are expected to remain in an unchanged position.

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<sup>8</sup> The discretionary fiscal effort is an indicator of the fiscal effort. It combines a top-down approach on the expenditure side with a bottom-up or narrative approach on the revenue side. It consists of the increase in primary expenditure net of cyclical components relative to economic potential on the one hand, and of discretionary revenue measures (excluding one-off measures) on the other hand. See European Commission (2013): Measuring the fiscal effort, Report on Public Finances in EMU, part 3 [http://ec.europa.eu/economy\\_finance/publications/european\\_economy/2013/pdf/ee-2013-4.pdf](http://ec.europa.eu/economy_finance/publications/european_economy/2013/pdf/ee-2013-4.pdf)

<sup>9</sup> The difference between the two measures of the fiscal adjustment in 2018 is explained by several factors: firstly, lower interest expenditure impact the structural balance but not the Discretionary Fiscal Effort; secondly, revenue shortfalls affect the structural balance but not the Discretionary Fiscal Effort; and thirdly, the ten-year average potential growth rate used as the reference rate in the Discretionary Fiscal Effort is lower than one-year point estimate used in the structural balance. All of those factors lead the Discretionary Fiscal Effort to indicate a more expansionary fiscal stance than the change in the structural balance in 2018.

<sup>10</sup> Since Greece was exempt from submitting Stability Programmes while it was under the programme, it has not yet nominated its medium-term objective. It is, therefore, not considered in this analysis.

**The public debt-to-GDP ratio is expected to continue its declining path in 2018 and 2019.** The euro-area general government debt-to-GDP ratio has been on a declining path since 2014, when it peaked at 94½%. According to the Commission 2018 autumn forecast, it is expected to fall to around 85% in 2019. The ongoing reduction in the euro-area aggregate debt-to-GDP ratio is mainly driven by projected primary surpluses in 2018 and 2019 (Annex IV Graph 8). A positive 'snowball effect', reflecting the projection that nominal interest rates will be lower than nominal GDP growth, is also expected to have a debt-reducing impact. In contrast, stock-flow adjustments are expected to put upward pressure on the euro-area aggregate debt-to-GDP ratio in 2019. The Draft Budgetary Plans target a similar reduction in the euro-area debt-to-GDP ratio, although the level of the ratio is expected to be higher in 2018 (87½%). In both years, the planned debt-to-GDP ratios are higher than those contained in the 2018 Stability Programmes, driven largely by upward revisions for France, Italy, Latvia, Malta, the Netherlands and Slovenia (Annex IV Table 7).

**All Member States apart from Lithuania are expected to reduce their debt-to-GDP ratios between 2018 and 2019, although the reductions are expected to be negligible in the cases of France and Italy.**<sup>11</sup> All Member States but Italy are expected to benefit from a debt-reducing snowball effect in 2019 while positive primary balances also have a downward impact, with the exceptions of France and Latvia (Annex IV Graph 8). Differences between the forecasts contained in the Commission 2018 autumn forecast and the Draft Budgetary Plans are limited, with the Commission projecting somewhat higher ratios for Greece, Italy, Cyprus, and Malta, and somewhat lower ratios for Germany, Latvia and Luxembourg.

**According to the Commission forecast, ten Member States are expected to have debt-to-GDP ratios above 60% in 2019.** Greece and Italy are expected to have the highest ratios of all Member States, above 120%, while Portugal is expected to reduce its debt-to-GDP ratio below 120% in 2019. Belgium, France, Cyprus and Spain are expected to still have ratios close to 100% in 2019. Some highly-indebted Member States are expected to make no structural effort (Spain, Belgium and Portugal) or to undertake an expansion (Italy and Cyprus) in 2019, according to the Commission 2018 autumn forecast, indicating that they have scope to reduce the debt burden more rapidly (Annex IV, Graph 9). Prima facie, Italy is expected to have large deviations from the debt reduction benchmark in 2018 and 2019, with its debt-to GDP ratio projected to remain broadly stable at around 131%. To a lesser extent, Belgium is also projected to not be compliant with the debt reduction benchmark in both years. Since the abrogation of their Excessive Deficit Procedures in 2016 and 2017, respectively, Portugal and France have been subject to the transitional debt rule. Portugal is projected to meet the transitional debt rule in 2018 but not in 2019, while France is not projected to meet it in either year. If Spain makes a durable correction to its excessive deficit in 2018, it will become subject to the transitional debt rule in 2019 and is currently not projected to meet the required adjustment.

### *Composition of fiscal adjustment*

**The projected deterioration in the euro-area aggregate structural balance in 2019 is largely driven by a fall in the cyclically-adjusted revenue ratio.** While total government

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<sup>11</sup> Lithuania is expected to have a particularly large increase in its ratio, which is projected to rise by 3.1 percentage points (to 37.9%), according to the Commission 2018 autumn forecast, due to a large positive stock-flow adjustment.

revenues are expected to grow by 2.9% in 2019 (according the Commission 2018 autumn forecast), the cyclically-adjusted revenue ratio is expected to fall from 46% of potential GDP in 2018 to 45.7% of potential GDP in 2019 (Table 1 and Annex IV Table 8). Social contributions, which are expected to grow at a lower rate than nominal GDP, are the largest contributor to the projected fall in the cyclically-adjusted revenue ratio (Annex IV Graph 14). The projected fall reflects the impact of reported revenue measures, which are expected to increase the headline deficit by 0.1% of GDP in 2019, and revenue shortfalls, which are also expected to increase the deficit by around 0.1% of GDP<sup>12</sup> (Annex IV Table 9).<sup>13</sup> The Draft Budgetary Plans target a similar decline in the revenue ratio in 2019, while revenues are expected to grow at the slightly higher rate of 3.1%.

**The cyclically-adjusted expenditure ratio is projected to remain unchanged between 2018 and 2019, according to the Commission 2018 autumn forecast, corresponding to total expenditure growth of 3.3%.** While the ratio is expected to fall slightly between 2017 and 2018, it is forecast to remain at 46.9% of potential GDP in 2019 (Table 1). The Draft Budgetary Plans also target an unchanged cyclically-adjusted expenditure ratio between 2018 and 2019 but at a slightly higher level (47.1% of potential GDP), while total expenditure is expected to grow at 3.5%. The cyclically-adjusted primary expenditure ratio is also forecast to remain unchanged (Annex IV Table 8), although that stability hides some variation between Member States. Indeed, a number of them are expected to have quite large increases in their cyclically-adjusted primary expenditure ratios in 2019 (Spain, Italy, Cyprus, Luxembourg and the Netherlands), while others are expected to have large declines (Latvia, Malta, Austria and Slovakia). While interest expenditure is expected to continue its recent trend decline as a percentage of GDP, the decline between 2018 and 2019 is smaller than in recent years (3 basis points, according to the Commission 2018 autumn forecast). On average, the implicit interest rate underlying the Commission's forecast is expected to remain at 2.1% in 2018 and 2019, similar to the assumption of the Draft Budgetary Plans.

### *Assessment of the fiscal policy orientation in the euro area*

**The fiscal stance should take due consideration of the monetary stance, which is expected to remain supportive of the euro-area economy in the coming years.** While the European Central Bank has started to gradually withdraw some stimulatory measures, it has stated that its key interest rates will remain at their current levels at least through the summer of 2019 and in any case for as long as is necessary to ensure the convergence of inflation to levels consistent with its mandate. As such, the monetary policy stance is expected to remain supportive in 2019. That approach can be seen in Graph 1, which shows the joint orientation of monetary and fiscal policies by comparing the evolution of financing conditions (the real long-term interest rate) with a measure of the fiscal effort (the Discretionary Fiscal Effort). Forward rates suggest a continued gradual rise in nominal long-term rates in the coming years, which should translate into higher real long-term rates. However, they are expected to remain negative, with long-term inflation expectations expected to increase at a much slower pace. Financing conditions are, therefore, expected to remain very supportive. On the fiscal side, as discussed above, the Commission 2018 autumn forecasts a mildly expansionary fiscal stance in 2019.

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<sup>12</sup> Compared to a counterfactual based on the nominal growth outlook.

<sup>13</sup> The aggregate revenue-to-GDP elasticity of both the plans and the Commission 2018 autumn forecast is around 0.9, compared to a standard revenue-to-output gap elasticity of 1.

**While economic growth in the euro area is projected to slow, the overall macroeconomic performance remains robust.** All euro-area Member States are now either in "normal" or "good" economic times (Graph 2) and the degree of economic slack has diminished in recent years. The output gap is expected to be positive in all Member States (except Greece) in 2019. Unemployment rates are forecast to fall steadily, reaching pre-crisis levels in all Member States except Greece, Spain and Italy. That ongoing economic expansion, coupled with accommodative monetary policy, provides an opportunity for Member States to rebuild fiscal buffers.

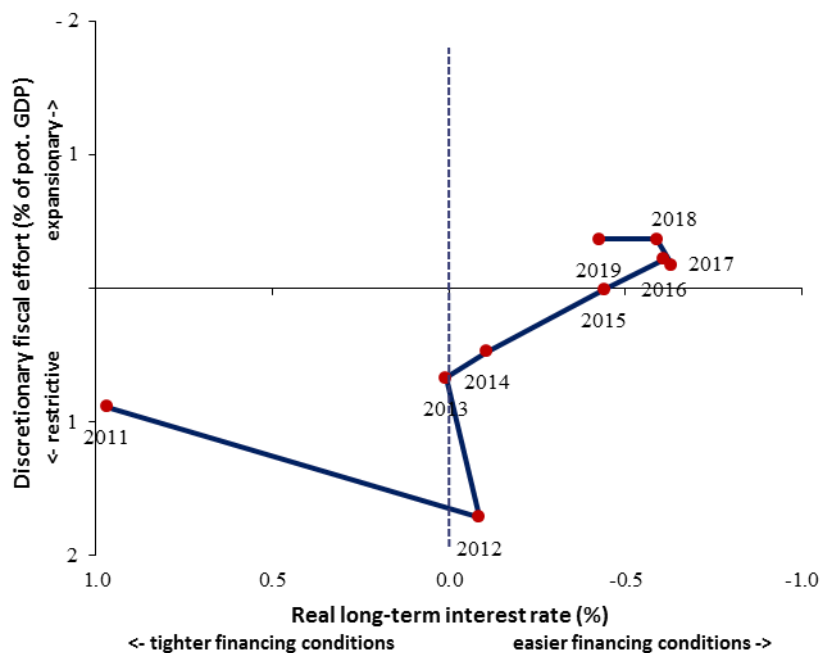
**Member States have very different fiscal positions in terms of debt and sustainability challenges.** An updated fiscal sustainability risk assessment has been undertaken on the basis of the Commission 2018 autumn forecast (Graph 2 and Annex IV Table 10). That assessment takes into account, inter alia, current debt levels, the current primary balance and expected costs of ageing.<sup>14</sup> Only Cyprus faces short-term fiscal sustainability risks, with the S0 indicator being just above its critical threshold. The short-term sustainability of Italian public finances appears, however, vulnerable to further increases in the cost of debt issuance. Those risks are in particular captured by a value of the S0 fiscal sub-index, which is above its critical threshold. According to the S1 indicator, Belgium, Spain, France, Italy and Portugal appear to face high medium-term risks.<sup>15</sup> While Cyprus is reported to have some fiscal scope on the basis of the S1 indicator, it is worth recalling that it faces significant risks related to contingent liabilities.

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<sup>14</sup> The methodology used to assess fiscal sustainability risks is presented in the European Commission Fiscal Sustainability Report 2015 (European Economy Institutional Paper, no. 018, January 2016) and the European Commission Debt Sustainability Monitor 2017 (European Economy Institutional Paper, no. 071, January 2018). Those updated results, based on the Commission 2018 Autumn forecast, will be presented in the forthcoming European Commission Fiscal Sustainability Report 2018.

<sup>15</sup> The Commission's S1 sustainability indicator shows the total effort required over 2021-2025 (the five years beyond the forecast horizon) so as to bring debt to 60% of GDP by 2033, taking into account implicit liabilities related to ageing. It points to an additional adjustment of 2.1% of GDP for the euro area over those five years. It translates into an additional yearly adjustment of approximately 0.4% of GDP between 2021 and 2025.

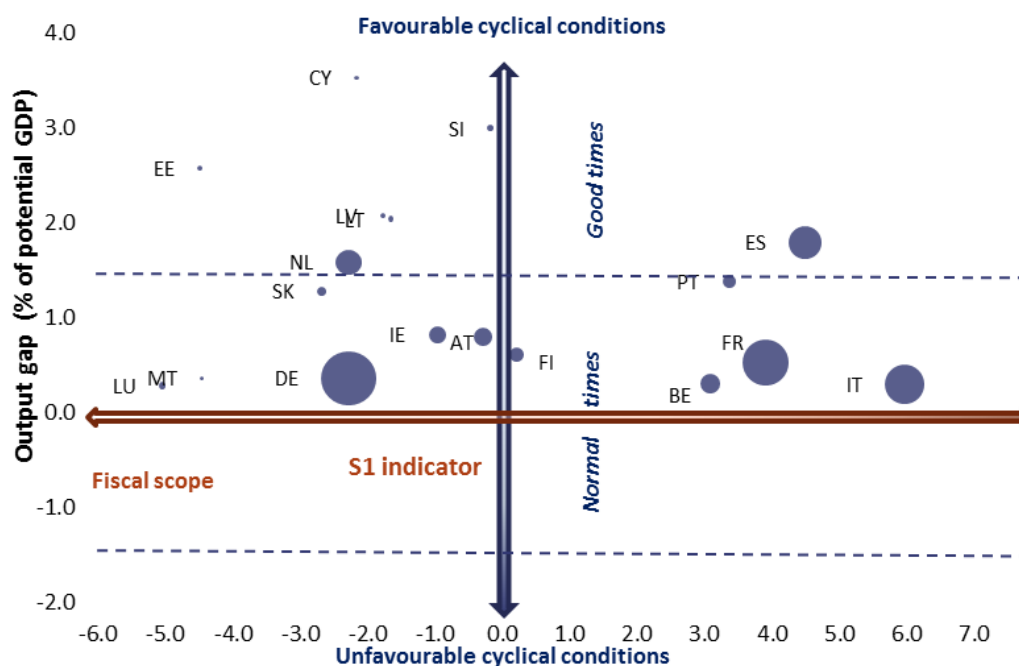
**Graph 1: Real long-term interest rate (%) and Discretionary Fiscal Effort (% of potential GDP) for the euro area**



Those Member States that face the highest sustainability challenges plan either a limited fiscal adjustment or, in the case of Italy, a fiscal expansion in 2019 (Annex IV Graph 9). The planned fiscal policies of these Member States take insufficient advantage of favourable macroeconomic conditions and accommodative monetary policy to rebuild fiscal buffers. A stronger reduction in public debt in those Member States would reduce their vulnerability to shocks and contribute to the future proper functioning of automatic stabilisers. Failure to reduce public debt increases the risk of heightened market pressure on countries with high public debt, which could have negative spill-over effects on the public debt markets of other euro-area Member States.

On the other hand, some large net external creditor Member States with ample fiscal space and large current account surpluses plan to use some of their fiscal space. In line with past recommendations, Germany and the Netherlands plan to implement expansionary fiscal policies in 2019 (Annex IV Graph 10). However, those plans are only partly oriented towards public investment. An increase in public investment by these Member States would boost their potential growth and generate positive spill-overs to the rest of the euro area. Long-term GDP effects would exceed the short-term impact as public investment would raise the productivity of private capital and labour over a sustained period of time.

**Graph 2: A fiscal map for the euro area in 2019**



*Note: Based on European Commission 2018 autumn forecast. Good (bad) economic times are measured by the output gap in 2019, in % of potential GDP, calculated according to the commonly-agreed methodology. The consolidation needs or fiscal scope are measured by the Commission's S1 indicator of risks to sustainability, in % of GDP, based on 2018 autumn forecast calculations and using 2018 as the base year.*

**Overall, fiscal policies are insufficiently differentiated, resulting in an overly expansionary fiscal stance for the euro area as a whole.** The full implementation of the Draft Budgetary Plans would equally result in a mild, pro-cyclical, expansion for the euro area as a whole. On the other hand, a combination of some fiscal expansion, as planned by Member States with fiscal space, combined with compliance with the Stability and Growth Pact by Member States with consolidation needs would result in a broadly neutral to mildly restrictive fiscal stance for the euro area (see Annex IV Graph 6a and 6b). Moreover, such a differentiation between Member States would contribute to a broadly balanced overall policy mix in the euro area, given the continued support to the economy from monetary policy.



### III. Overview of the Draft Budgetary Plans

The Commission Opinions on the Draft Budgetary Plans focus on compliance with the Stability and Growth Pact and the recommendations issued on that basis. For Member States in the Excessive Deficit Procedure (EDP), the Commission Opinions take stock of progress made in correcting the excessive deficits, with respect to both headline deficit and structural effort targets. For Member States in the preventive arm of the Stability and Growth Pact (SGP), the Commission Opinions assess adherence to, or the progress towards, the country-specific medium-term budgetary objectives (MTOs), as well as compliance with the debt rule, in order to verify whether the plans are in line with the Stability and Growth Pact and the fiscal country-specific recommendations contained in the Council Recommendations of 13 July 2018.<sup>16</sup>

All euro-area Member States submitted their Draft Budgetary Plans in due time, in line with Article 6 of Regulation (EU) No 473/2013. In accordance with the provisions of the Two-Pack Code of Conduct, the outgoing governments of Latvia and Luxembourg submitted no-policy-change Draft Budgetary Plans due to the holding of national elections in October 2018. As soon as the governments take office and as a rule at least one month before the draft budget law is planned to be adopted by the national parliament, the authorities are invited to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan. The government of Slovenia, which took office on 13 September 2018, submitted a Draft Budgetary Plan without new policy measures for 2019, due to a delay in the budgetary process. The Commission highlighted the importance of the submission of an updated Draft Budgetary Plan in its letter of 19 October 2018. Spain submitted its Draft Budgetary Plan without the concurrent submission of the draft budget act to the national parliament which is required by Article 4 of Regulation (EU) No. 473/2013. As a result, the Draft Budgetary Plan did not give a complete picture of the planned measures. In its letter of 19 October 2018, the Commission invited Spain to submit all the necessary information on the various measures and, should there be substantial differences between the Draft Budgetary Plan and the draft budget act finally submitted to Parliament, to provide the Eurogroup and the Commission with an updated Draft Budgetary Plan.

The Draft Budgetary Plan submitted by Italy on 16 October 2018 plans an obvious significant deviation of the recommendations adopted by the Council under the Stability and Growth Pact, which is a source of serious concerns. The Commission raised those concerns in a letter to the Italian government on 18 October 2018. First, the Commission noted that both the fact that the Draft Budgetary Plan plans a fiscal expansion of close to 1% of GDP, while the Council has recommended a fiscal adjustment of 0.6% of GDP, and the size of the deviation (a gap of around 1.5% of GDP) are unprecedented in the history of the Stability and Growth Pact. Second, the Commission emphasised that while Italy's government debt stands around 130% of GDP, the plans would not ensure compliance with the debt reduction benchmark. In that regard, the Commission referred to past reports under Article 126(3) TFEU, which considered broad compliance with the preventive arm of the Stability and Growth Pact as a key relevant factor, and noted that the conclusions of the report from 23 May 2018 may need

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<sup>16</sup> Council Recommendations of 13 July 2018, OJ C 320, 10.09.2018.  
<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:C:2018:320:TOC>

to be reviewed if such broad compliance can no longer be established.<sup>17</sup> The Commission noted that those factors would seem to point to a particularly serious non-compliance with the budgetary policy obligations laid down in the Stability and Growth Pact as set out in Article 7(2) of Regulation (EU) No 473/2013. The Commission invited the Italian government to present its views on the matter by 22 October 2018, to be taken into account before coming to a final assessment of the Draft Budgetary Plan. In its letter of 22 October 2018, the Italian government recognised that the budgetary plans do not fulfil the rules of the Stability and Growth Pact as regards the structural adjustment debt reduction, provided further explanation on the budgetary plans, and addressed the non-endorsement of the macroeconomic forecast by the Parliamentary Budget Office. On 23 October 2018, the Commission adopted an Opinion on Italy's Draft Budgetary Plan, in conjunction with a letter to the Italian government, concluding that the Commission had identified a particularly serious non-compliance with the Council recommendation of 13 July 2018. In accordance with Regulation (EU) No 473/2013, the Commission requested Italy to submit a revised Draft Budgetary Plan as soon as possible, and within three weeks at the latest. Italy submitted a revised Draft Budgetary plan on 13 November 2018. Based on an assessment of the government plans in the revised 2019 Draft Budgetary Plan and on the Commission 2018 autumn forecast, the Commission confirms the existence of a particularly serious non-compliance with the recommendation addressed to Italy by the Council on 13 July 2018.<sup>18</sup>

While no other case of particularly serious non-compliance has been established, some Draft Budgetary Plans also give rise to concerns. In particular, the Commission sent letters to Belgium, France, Portugal, Slovenia and Spain on 19 October 2018 asking for further information and highlighted a number of preliminary observations related to their Draft Budgetary Plans. The Member States concerned replied by 22 October 2018. The Commission took the information contained in their letters into account in its assessment of budgetary developments and risks.

Tables 2 summarises the assessments of individual Member States' Draft Budgetary Plans as per the Commission's Opinions adopted on 21 November 2018 together with the assessment of progress with fiscal-structural reforms. Those assessments are based on the Commission 2018 autumn forecast. In order to facilitate comparison, the assessment of the plans that were not found to be in particularly serious non-compliance is summarised in three broad categories. As no Member State is currently expected to remain in Excessive Deficit Procedure in 2019, for all Member States the compliance assessments for 2019 are made against the requirements of the preventive arm, notably the Council Recommendations of 13 July 2018:

- **Compliant:** according to the Commission's 2018 autumn forecast, there is **no need to adapt the budgetary plans** within the national budgetary procedure to ensure that the 2019 budget will be compliant with the Stability and Growth Pact rules.

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<sup>17</sup> In its letter, the Commission also noted that the macroeconomic forecast underlying the budgetary plans had not been endorsed by an independent body, which appears not to respect the explicit provision of Regulation (EU) No 473/2013.

<sup>18</sup> Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Italy and delivering a Council opinion on the 2018 Stability Programme of Italy, OJ C 320, 10.09.2018, p. 48.

- **Broadly compliant:** According to the Commission's forecast for 2019, the Draft Budgetary Plan is expected to ensure broad compliance with the Stability and Growth Pact rules.

The Commission's forecast for 2019 projects those Member States to be close to their medium-term objective, where relevant taking into account the allowances linked to the implementation of structural reforms. At the same time, the expenditure benchmark currently points to a risk of a significant deviation from the requirements, which will need to be taken into account in future assessments if the structural balance is no longer projected to be close to the medium-term objective, taking into account any allowances where relevant. These Member States are assessed to comply with the debt criterion.

- **Risk of non-compliance:** According to the Commission's forecast for 2019, the Draft Budgetary Plan is not expected to ensure compliance with the Stability and Growth Pact rules.

The Commission's forecast for 2019 projects a significant deviation from the medium-term objective or the required adjustment path towards it, and/or non-compliance with the debt reduction benchmark, where applicable.

One Member State, Belgium, has requested additional flexibility in line with the "Commonly agreed position on flexibility within the Stability and Growth Pact" endorsed by the Council on 12 February 2016. In particular, the Belgian Draft Budgetary Plan includes a request for a temporary deviation from the adjustment path towards the medium-term objective as of 2018 in view of the implementation of major structural reforms with a positive impact on the long-term sustainability of public finances. At this stage, the Commission considered that if Belgium were to continue to respect the minimum benchmark in 2019, Belgium appears to qualify for the requested temporary deviation of 0.5% of GDP in 2019 for structural reforms. A final assessment of the request for flexibility will take place within the normal European Semester cycle in the context of the assessment of the 2019 Stability Programme.

The Commission, in consultation with the Member States, has continued to use the plausibility screening tool to signal cases where the output gap estimates according to the agreed methodology could be interpreted as being subject to a high degree of uncertainty. The Commission takes the same approach as it took in previous surveillance rounds. Based on the screening tool, the output gaps for 2018 may be subject to a high degree of uncertainty in the case of five Member States (Cyprus, Croatia, Luxembourg, Slovenia and Spain). As Cyprus, Croatia and Luxembourg are expected to remain above their medium-term objective, no further assessment has been carried out. For Slovenia and Spain, an assessment of the uncertainty surrounding the output gap estimates was already carried out in spring 2018, which indicated that the output gap estimate for 2019 based on the common methodology was subject to a high degree of uncertainty. On that basis, the required adjustment for those Member States for 2019 had already been reduced from 1% to 0.65% in the context of the Council Recommendations of 13 July 2018. The autumn assessments confirm the high degree of uncertainty in both cases.

Finally, the Commission has preliminarily assessed the degree of progress with the implementation of the fiscal-structural reforms outlined in the Council Recommendations of 13 July 2018. The assessment of the Draft Budgetary Plans is summarised in the following five broad categories: no progress, limited progress, some progress, substantial progress and fully addressed. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2019 Country Reports and

assessed in the context of the 2019 country-specific recommendations to be adopted by the Council in 2019.

**Table 2: Overview of individual Commission opinions on the Draft Budgetary Plans**

| Member States | Overall compliance of the DBP with the SGP                                    |   | Progress with implementing the fiscal-structural part of the 2018 country-specific recommendations |
|---------------|---|---|--|
|               | Overall conclusion of compliance based on the Commission 2018 autumn forecast | Compliance with the preventive/corrective arm requirements in 2018 and 2019   |  |
| <b>IT*</b>    | Particularly serious non-compliance   | 2018: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark;<br>2019: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark.  | No progress  |
| <b>BE**</b>   | Risk of non-compliance  | 2018: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark;<br>2019: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark.  | Limited progress   |
| <b>FR</b>     | Risk of non-compliance  | 2018: risk of some deviation from the adjustment path towards the MTO, prima facie non-compliance with the transitional debt reduction benchmark;<br>2019: risk of a significant deviation from the adjustment path towards the MTO based on 2018 and 2019 taken together, prima facie non-compliance with the transitional debt reduction benchmark. | Limited progress   |
| <b>PT</b>     | Risk of non-compliance  | 2018: risk of a significant deviation from the adjustment path towards the MTO, compliance with the transitional debt reduction benchmark;<br>2019: risk of a significant deviation from the adjustment path towards the MTO, non-compliance with the transitional debt reduction benchmark.  | Limited progress   |
| <b>SI***</b>  | Risk of non-compliance  | 2018: risk of a significant deviation from the adjustment path towards the MTO, compliance with the transitional debt reduction benchmark;<br>2019: risk of a significant deviation from the adjustment path towards the MTO, compliance with the debt reduction benchmark.   | Limited progress   |
| <b>ES****</b> | Risk of non-compliance  | 2018: headline deficit projected below 3%, headline target not met, fiscal effort not delivered;<br>2019: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the transitional debt reduction benchmark.  | Limited progress   |
| <b>EE</b>     | Broadly compliant   | 2018: compliant with the adjustment path towards the MTO;<br>2019: close to the MTO while risk of significant deviation from the expenditure benchmark requirement.   | n.r.   |
| <b>LV***</b>  | Broadly compliant   | 2018: close to the MTO while risk of significant deviation from the expenditure benchmark requirement;<br>2019: close to the MTO while risk of significant deviation from the expenditure benchmark requirement   | Limited progress   |
| <b>SK</b>     | Broadly compliant   | 2018: risk of a significant deviation from the adjustment path towards the MTO;<br>2019: close to the MTO while risk of significant deviation from the expenditure benchmark requirement.   | Some progress  |
| <b>DE</b>     | Compliant   | 2018: MTO respected, compliance with the debt reduction benchmark;<br>2019: MTO respected.  | Some progress  |
| <b>IE</b>     | Compliant   | 2018: MTO respected while risk of significant deviation from the expenditure benchmark requirement  | Some progress  |

|                |           |   |                      |
|----------------|-----------|---|----------------------|
|                |           | based on 2017 and 2018 taken together, compliance with the transitional debt rule;<br>2019: MTO respected, compliance with the debt reduction benchmark.  |                      |
| <b>EL*****</b> | Compliant | 2018: compliance with the transitional debt reduction benchmark;<br>2019: compliance with the transitional debt reduction benchmark.  | n.r.                 |
| <b>CY</b>      | Compliant | 2018: MTO respected, compliance with the transitional debt reduction benchmark;<br>2019: MTO respected, compliance with the debt reduction benchmark.   | No progress          |
| <b>LT</b>      | Compliant | 2018: MTO respected;<br>2019: MTO respected.  | Some progress        |
| <b>LU***</b>   | Compliant | 2018: MTO respected;<br>2019: MTO respected.  | Limited progress     |
| <b>MT</b>      | Compliant | 2018: MTO respected;<br>2019: MTO respected.  | No progress          |
| <b>NL</b>      | Compliant | 2018: MTO respected;<br>2019: MTO respected.  | Substantial progress |
| <b>AT</b>      | Compliant | 2018: MTO respected taking into account the allowances for which a temporary deviation is granted, while risk of significant deviation from the expenditure benchmark requirement, compliance with the debt reduction benchmark;<br>2019: MTO respected while risk of significant deviation from the expenditure benchmark requirement based on 2018 and 2019 taken together, compliance with the debt reduction benchmark. | Limited progress     |
| <b>FI</b>      | Compliant | 2018: MTO respected taking into account the allowances for which a temporary deviation is granted;<br>2019: MTO respected taking into account the allowances for which a temporary deviation is granted, while risk of significant deviation from the expenditure benchmark requirement based on 2018 and 2019 taken together.  | Limited progress     |

\* The Commission issued a report on 23 May 2018 in accordance with Article 126(3) TFEU in which it concluded that the debt criterion should be considered as currently complied with. Italy's particularly serious non-compliance identified by the Commission with the recommendation addressed to it by the Council on 13 July 2018 represents a material change in the relevant factors analysed by the Commission on 23 May 2018. That calls for revisiting the Commission's assessment.

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

\*\*\* Draft Budgetary Plan submitted on a no-policy-change basis.

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

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