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ANNEX 1

ANNEX

to the

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2014 Draft Budgetary Plans of the Euro Area: Overall Assessment of the budgetary situation and prospects

ANNEX I: The methodology and assumptions underpinning the autumn 2013 European economic 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*".

European Economic Forecasts are produced independently by Commission staff. The assumptions underlying the Commission's autumn forecast 2013 are explained in the forecast document itself[1].

Budgetary data up to 2012 are based on data notified by Member States to the European Commission on 1 October and validated by Eurostat on 21 October 2013.

Eurostat has expressed its reservation on the quality of the data reported by Austria, due to uncertainties on the statistical impact of the conclusions of the Federal Audit Office's report on the Land Salzburg, published on 9 October 2013. The report revealed deficiencies with regard to financial management and to completeness of the public accounts of the Land Salzburg. The statistical implications of the audit for EDP data are being investigated by Statistics Austria in collaboration with Eurostat, in order to clarify the precise impacts on 2012 and also on preceding years. It is possible that this will lead to an upward revision of government debt of up to half a percent of GDP, with more minor revisions to the government deficit, based on the information available at the time of the validation.

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 2014, 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 15 October is reflected in this forecast. For 2015, 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.

The general government balances that are relevant for the Excessive Deficit Procedure may be slightly different from those published in the national accounts. The difference concerns settlements under swaps and forward rate agreements (FRA).

According to ESA95 (amended by Regulation (EC) No 2558/2001), swap- and FRA-related flows are financial transactions and therefore excluded from the calculation of the government balance. However, for the purposes of the excessive deficit procedure, such flows are recorded as net interest expenditure. European aggregates for general government debt in the forecast years 2013-15 are published on a non-consolidated basis (i.e. not

[1] Methodological assumptions underlying the 2013 autumn Commission forecast (from - European economic forecast autumn 2013), page 40.
Available online at http://ec.europa.eu/economy_finance/publications/european_economy/forecasts/index_en.htm

[2] Eurostat News Release N° 103/2009.

corrected for intergovernmental loans). To ensure consistency in the time series, historical data are also published on the same basis. For 2012, this implies a debt-to-GDP ratio in the euro area which is 2.1 pp. (1.5 pp. in the EU) higher than the consolidated general government debt ratio published by Eurostat in its news release 152/2013 of 21 October 2013. General government debt projections for individual Member States in 2013-15 include the impact of guarantees to the EFSF[3], 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 (subject to approval).

According to the 2013 Commission autumn forecast, the aggregate budgetary measures in 2014 amount to ¼% of GDP. The impact on growth of this estimate would, in the short-term, be less than ¼%, i.e. compatible with a broadly neutral fiscal stance.

It is important to exert some caution in interpreting this estimate:

- not acting on fiscal imbalances could heighten financial assets fragilities and lead to higher spreads and lending rates. The policy choice is therefore not between taking or not taking measures;
- the Regulation aims at evaluating the effect of the measures taken in the DBPs. So measures taken and entered into force before the DBP are not included in the assessment (even if they can affect the forecast).
- measures taken with effect in 2014 also compensate for existing measures having a one-off impact in 2013 – whose effect is thus expiring – and for the trend increase in expenditure which, when it is higher than the medium-term GDP growth, results in a fiscal expansion per se. The Commission evaluates one-offs at the EA-13 aggregate level for 2013 at 0.1% of GDP and evaluates at 0.3% of GDP at the EA-13 the trend increase in expenditures in absence of policy measures.

[3] In line with the Eurostat decision of 27 January 2011 on the statistical recording of operations undertaken by the European Financial Stability Facility, available at: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-27012011-AP/EN/2-27012011-AP-EN.PDF.

ANNEX II: Sensitivity analysis

Based on 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 and interest rates), relying on results from stochastic debt projections[4]. The analysis allows gauging the possible impact of downside and upside risks to growth on public debt dynamics (also accounting for their impact on the cyclical component of the budget balance, through the functioning of the automatic stabilisers), as well as the effects of positive/negative developments on financial markets, translating into lower/higher borrowing costs for governments.

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 (EC) forecast scenario (Autumn 2013 forecasts) and the draft budgetary plans (DBPs) forecast scenario in the two panels of the graph below, reporting results for the EA13[5] (in both cases the usual no-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) 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 and interest rates. The size and correlation of the shocks reflect the variables' historical behaviour[7]. Simulated debt dynamics account for the fact that shocks to growth feed back into "budgetary shocks", in that the cyclical component of the budget balance is affected through the operation of the automatic stabilisers. The resulting fan charts in the graph below therefore provide probabilistic information on debt dynamics for the EA13, taking into account the possible occurrence of shocks to growth and interest rates 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 and interest rates (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.

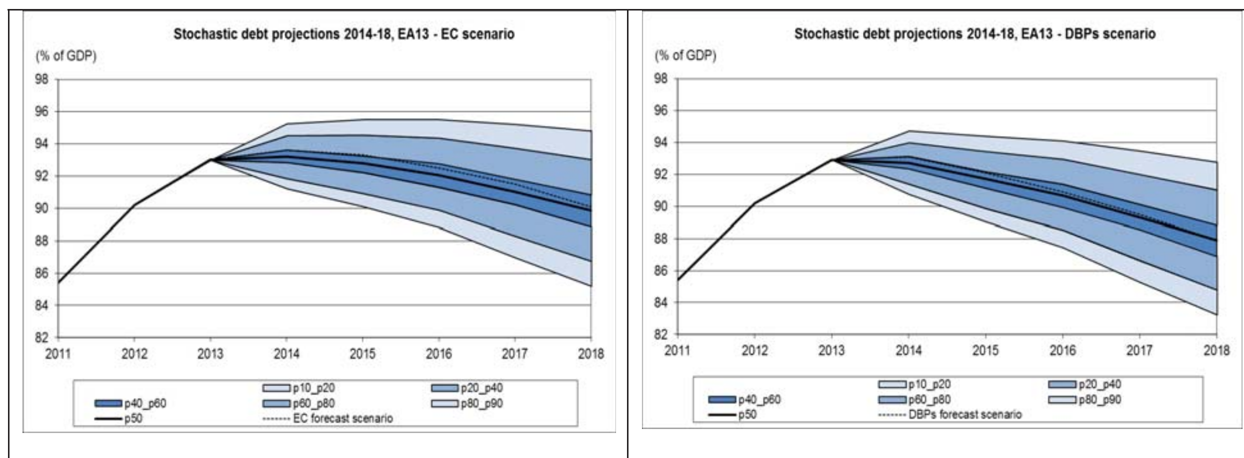
[4] The methodology for stochastic public debt projections used here is presented in the European Commission's Fiscal Sustainability Report 2012, Section 3.3.3.

[5] Euro area Member States with the exclusion of those under macroeconomic adjustment programme (CY, EL, IE and PT).

[6] This entails that the EA13 structural primary balance is assumed to remain constant at last forecasted value – a 1.8% surplus in 2014 in the DBPs scenario, against a 1.4% surplus in 2015 in the EC scenario – over the rest of the projection horizon.

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

Fan charts from stochastic public debt projections around the Commission forecast (EC) scenario and the Draft Budgetary Plans (DBPs) forecast scenario



For both EC and DBPs forecast scenarios, the fan charts highlight a 40% probability of a worse than forecasted debt-to-GDP ratio for the EA13 in 2014, due to the occurrence of adverse macroeconomic shocks[8]. Under both EC and DBPs scenarios, accounting for both downside and upside risks to growth and financial market conditions leads to a EA13 debt in 2014 broadly lying between 91% and 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 2014 would be slightly higher for the EC scenario compared to the DBPs scenario, due to a 0.5 p.p. difference between the respective central forecasts to which shocks apply (a debt ratio of 93.5% in the EC scenario versus 93.0% in the DBPs scenario).

Beyond 2014, the horizon of the current DBPs, simulation results show a widening of the difference in projected debt ratios under shocks between the EC and the DBPs scenarios. At the end of the projection horizon considered in the fan charts (2018), there would be a 50% probability of a debt ratio higher than 90% of GDP in the EC scenario, and a 50% probability of a debt ratio higher than 88% of GDP in the DBPs scenario. The difference is mainly due to the structural primary balance kept constant at higher last forecasted surplus in the DBPs scenario compared to the EC scenario leading to a stronger decrease in simulated debt ratios after 2014 in the DBPs scenario.

[8] In 2014, the dashed line representing forecasts for the central scenario corresponds, in both fan charts, with the line indicating the 60th percentile of the distribution, meaning that 40% of all possible values for the debt-to-GDP ratio in 2014 would lie above the forecasted value.

ANNEX III: The implementation of structural reforms: stronger growth, more jobs and sounder public finances

Structural reforms are at the core of economic policy recommendations by the European Commission.

- Firstly, their implementation is crucial to encourage growth and jobs, which constitutes a strategic priority for both the European Union and the Member States, and is part of the Europe 2020 Strategy. Moreover, easing structural rigidities can attenuate the impact of the on-going economic adjustment and foster an efficient reallocation of resources, improving productivity and competitiveness prospects. In this respect, euro area Member States, particularly the vulnerable ones have carried out a large set of structural reforms in recent years to correct the imbalances built in the past and shift the economy onto a more sustainable growth path. The reform momentum is particularly vivid in the two countries signalled within the Macroeconomic Imbalance Procedure as having excessive imbalances, i.e. Spain and Slovenia, as is in programme countries[9].

  In Spain, rebalancing is advancing and recent data points to a stabilisation of the economy and the financial sector, reinforced by the thorough implementation of the 2012 ESM programme for the recapitalisation of financial institutions. In this context, there has been a visible stepping up of the pace of reforms aimed at addressing structural shortfalls, largely in line with the existing commitments within the European Semester. First, important measures have been taken to address the long-term sustainability of the pension system while continuing the containment of health care expenditure. Second, several initiatives aimed at improving the quality of public expenditure and the efficiency of the public administration (such as reducing the reliance on indexation clauses in the public sector, cutting the red tape or setting up an independent fiscal council) are expected to come into force as from 2014. Third, work continues on the modernisation and reinforcement of employment services and to boost active labour market policies (ALMP) as well as their links with passive policies. Fourth, various initiatives aimed at improving the business environment and fostering greater competition in the non-tradable sector are under way; (i) the law on the guarantee of market unity; (ii) first draft law reforming professional services; (iii) the law on entrepreneurship improving the framework for corporate insolvency and (iv) a reform in the electricity sector tackling the excessive gap between fast-rising regulated costs and mandated tariffs for end consumers.

  Slovenia has made significant reform progress in some key policy areas, in particular in the fiscal and banking domain. However, reforms in other fields are at a more preliminary stage and their final impact on the economy will crucially depend on keeping up the momentum during the implementation phase. First, as regards fiscal governance and long-term fiscal sustainability, a reform of the fiscal framework is being drafted, while reforms of long-term care, a spending review, and a reassessment of possible reforms to the pension system are in preparatory phase. Second, regarding measures to stabilise the banking sector, a thorough Asset Quality Review and Stress Test is on-going, opening the way for a broader restructuring and recapitalisation of the sector in view of the divestment of public stakes in domestic banks. Third, in the labour market domain Slovenia has recently revised the employment protection legislation, while revisions to the minimum wage act and student work are under consideration. Fourth, other reforms

[9] On the latter see the latest compliance reports in European Economy¬-Occasional Papers, 159 (Greece), 164 (Ireland), 161 (Cyprus), 156 (Romania) and 153 (Portugal).

aiming to improve the adjustment capacity and the growth prospects of the economy are also in preparation, but with some delays. A reform of the insolvency code, which includes new provisions for out-of-court restructuring, is being drafted. Proposed amendments to the Slovenia Sovereign Holding Act would bring improvements in terms of governance, management, and accountability of state-owned enterprises. The amended law would also require the authorities to prepare a strategy based on a classification of assets in public ownership, facilitating the privatisation of non-core assets. Finally, improvements in case management appear to have had a positive effect on judicial efficiency, while the success of a pilot project will lead to its nationwide rollout in 2014.

- Secondly, excessive public deficits are often partially rooted on structural weaknesses. Therefore, budgetary measures may frequently need to come alongside structural reforms to ensure a lasting correction of excessive deficit situations. In this sense, since the entry into force of the Two Pack, Member States in excessive deficit procedure are required to submit an Economic Partnership Programme, which is a roadmap for the fiscal structural reforms instrumental to an effective and lasting correction of the excessive deficit. In particular, EPPs should detail reforms in the areas of (i) national fiscal frameworks, (ii) taxation, and (iii) pension and health systems.

Spain, France, Malta, the Netherlands and Slovenia submitted their EPPs[10] for the first time on 1 October 2013. The aggregate picture stemming from these EPPs in the three fiscal structural reform areas is described below:

1. Sweeping reforms of **national fiscal frameworks** are well underway across all euro area Member States, driven by the requirements arising from the "Six-pack" (more specifically the Directive 2011/85/EU on budgetary frameworks), the "Two-pack" and the inter-governmental Treaty on Stability, Coordination and Governance in the EMU. Against the backdrop of these across-the-board efforts towards strengthening domestic fiscal governance arrangements, three out of the five Member States who submitted an EPP (Spain, Malta, Slovenia) also received fiscal framework recommendations as part of the 2013 Country Specific Recommendations (CSRs). The corresponding policy response by these three Member States aims to address key building blocks such as the implementation of structural balanced-budget rules and the setting-up of independent fiscal institutions and robust medium-term budgetary frameworks. The national decision-making processes are at various stages, generally aiming to complete these reforms by the end of 2013 or the beginning of 2014. The other two Member States for which no fiscal framework CSR was issued in 2013 (France, Netherlands) have taken concrete steps to upgrade their fiscal frameworks. The establishment of the High Council for Public Finances in France is expected to have a significant impact on fiscal planning and monitoring, whereas the forthcoming entry into force of the sustainable public finances act in Netherlands will firmly anchor budgetary discipline to ensure compliance with the EU requirements.
2. All five Member States who submitted an EPP had received CSRs concerning **taxation**. Overall, EPPs focus to a large extent on on-going or already planned tax reforms, but present also recent or new measures. More specifically, the Netherlands emphasises reforms that are currently being implemented in the areas of housing and labour taxation to fulfil the recommendations, but were mainly agreed last year. Malta presents a range of reforms to enhance tax compliance and governance in response to

[10] The Two Pack Code of Conduct can be found at: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/130701_-_two_pack_coc_final_endorsed.pdf

the recommendations in this area. However, many of these policy measures appear to refer to past or on-going reforms, while the CSR to address the debt bias in corporate taxation is not explicitly addressed in the programme. Slovenia, in turn, presents several tax measures that have been introduced recently for consolidation purposes as part of the new budgetary strategy (including a VAT increase, the abolition of planned CIT reductions, a nominal freeze of thresholds and allowances in the PIT, and a reform of property taxation) as well as measures to improve tax compliance. France is undertaking various reforms in response to their tax CSRs. In this case, the EPP emphasizes the introduction and extension of the competitiveness and employment tax credit, together with the implementation of a VAT reform and new environmental taxes. The governance of tax expenditures is being reformed, and measures are being undertaken to reduce the debt bias in corporate taxation. The EPP for Spain mainly refers to the on-going review of the tax system, which was requested by the recommendations addressed to it and is planned to be completed by the end of February 2014. No concrete measures addressing the other elements of the taxation CSR for Spain are presented.

3. Similarly, all five Member States who submitted an EPP had received CSRs on **pension and health care policies**. Three of them (Spain, France, Netherlands) have taken concrete reform measures and initiated the parliamentary process for legislation so as to address the pension reforms recommendations and to enhance the stability of pension systems and, therefore, fiscal sustainability. The other two (Malta, Slovenia) are still in the process of formulating further such reform measures. As far as health care policies is concerned, all five Member States have taken steps towards addressing efficiency of health care spending and thereby addressing the CSRs, but to varying degrees: some have relatively advanced plans (Netherlands, France, Spain), while others are still in the earlier stages of the reform process (Slovenia, Malta).

ANNEX IV: Graphs and Tables

Table A1: Headline deficit targets (% of GDP) for the EA13 according to the Draft Budgetary Plans (DBP), the Stability Programmes (SP) and the 2013 Commission autumn forecast (COM)

	2013			2014		
Country	DBP	SP	COM	DBP	SP	COM
BE	-2,5	-2,5	-2,8	-2,1	-2,0	-2,6
DE	0,0	-0,3	0,0	0,2	0,2	0,1
EE	-0,6	-0,5	-0,4	-0,4	0,0	-0,1
ES	-6,8	-6,3	-6,8	-5,8	-5,5	-5,9
FR	-4,1	-3,7	-4,1	-3,6	-2,9	-3,8
IT	-3,0	-2,9	-3,0	-2,5	-1,8	-2,7
LU	-0,9	-0,7	-0,9	-0,5	-0,6	-1,0
MT	-2,7	-2,7	-3,4	-2,1	-2,1	-3,4
NL	-3,2	-3,4	-3,3	-3,3	-3,0	-3,3
AT	-2,3	-2,3	-2,5	-1,5	-1,5	-1,9
SI	-5,6	-7,9	-5,8	-6,7	-2,6	-7,1
SK	-3,0	-2,9	-3,0	-2,8	-2,6	-3,2
FI	-2,2	-1,9	-2,2	-1,9	-1,3	-2,3
EA-13	-2,7	-2,7	-2,8	-2,3	-1,9	-2,5

Table A2: Changes in structural balance (% of GDP) for the EA13 according to the Draft Budgetary Plans (DBP), the Stability Programmes (SPs) and the 2013 Commission autumn forecast (COM)

	2013			2014		
Country	DBP	SP	COM	DBP	SP	COM
BE	1,1	1,2	0,8	0,7	0,5	0,4
DE	0,3	0,0	0,3	0,0	0,4	0,0
EE	-0,5	-0,5	-0,4	0,6	0,7	0,5
ES	1,2	1,4	1,1	-0,1	0,4	-0,1
FR	1,1	1,6	0,9	0,6	0,7	0,7
IT	0,5	0,9	0,6	0,1	0,4	0,1
LU	-0,5	0,1	-0,6	-0.6	-0,3	-0,6
MT	1,3	0,5	0,35	0,5	0,6	-0,1
NL	1,4	1,0	0,6	0.2	-0,1	0,4
AT	0,1	-0,4	0,0	0,2	0,7	0,0
SI	0,5	0,2	-0,1	0,6	1,2	0,7
SK	1,3	1,2	1,7	-0.1	0,5	-0,8
FI	0,1	0,1	-0,1	0,1	0,3	-0,2
EA-13	0,7	0,8	0,6	0,3	0,4	0,2

Table A3: Debt-to-GDP ratio (% of GDP) for the EA13 according to the Draft Budgetary Plans (DBP), the Stability Programmes (SP) and the 2013 Commission autumn forecast (COM)

	2013			2014		
Country	DBP	SP	COM	DBP	SP	COM
BE	100,0	100,0	100,4	100,2	99,0	101,3
DE	79,6	80,4	79,6	76,90	77,7	77,1
EE	10,1	10,2	10,0	10,0	9,9	9,7
ES	94,2	91,4	94,8	98,9	96,2	99,9
FR	93,4	93,6	93,5	95,1	94,3	95,3
IT	132,9	130,4	133,0	132,7	129,0	134,0
LU	24,9	23,8	24,5	26,1	25,9	25,7
MT	73,2	74,2	72,6	73,2	74,2	73,3
NL	75,0	74,0	74,8	76,1	75,0	76,4
AT	74,6	73,6	74,8	74,0	73,0	74,5
SI	63,1	61,8	63,2	65,5	63,2	70,1
SK	54,3	54,8	54,3	56,8	56,3	57,2
FI	58,3	56,3	58,4	60,7	57,3	61,0
EA-13	93,0	92,2	92,9	93,0	91,8	93,5

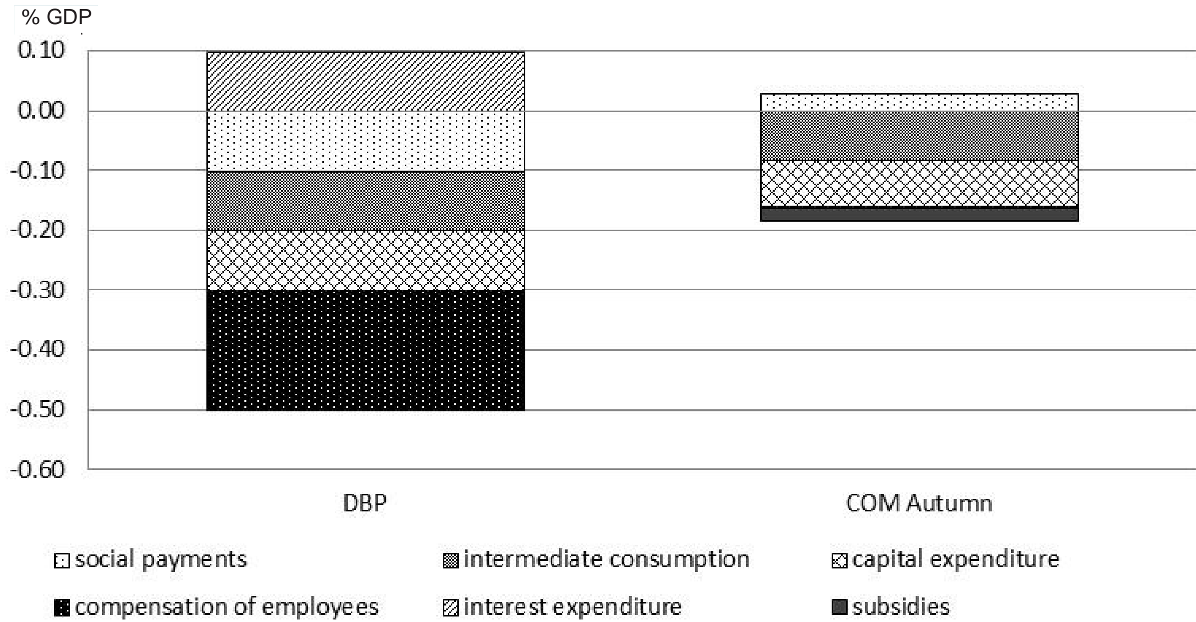
Table A4: Real GDP growth (percentage change) for the EA13 according to the Draft Budgetary Plans (DBP), the Stability Programmes (SP) and the 2013 Commission autumn forecast (COM)

	2013			2014		
Country	DBP	SP	COM	DBP	SP	COM
BE	0,1	0,2	0,1	1,1	1,5	1,1
DE	0,5	0,4	0,5	1,6	1,6	1,7
EE	1,5	3,0	1,3	3,6	3,6	3,0
ES	-1,3	-1,3	-1,3	0,7	0,5	0,5
FR	0,1	0,1	0,2	0,9	1,2	0,9
IT	-1,8	-1,3	-1,8	1,1	1,3	0,7
LU	1,0	1,0	1,9	2,3	2,2	1,8
MT	1,2	1,4	1,8	1,7	1,6	1,9
NL	-1,3	-0,4	-1,0	0,5	1,1	0,2
AT	0,4	1,0	0,4	1,7	1,8	1,6
SI	-2,4	-1,9	-2,7	-0,8	0,2	-1,0
SK	0,8	1,2	0,9	2,2	2,9	2,1
FI	-0,5	0,4	-0,6	1,2	1,6	0,6
EA-13	-0,4	-0,2	-0,3	1,2	1,3	1,1

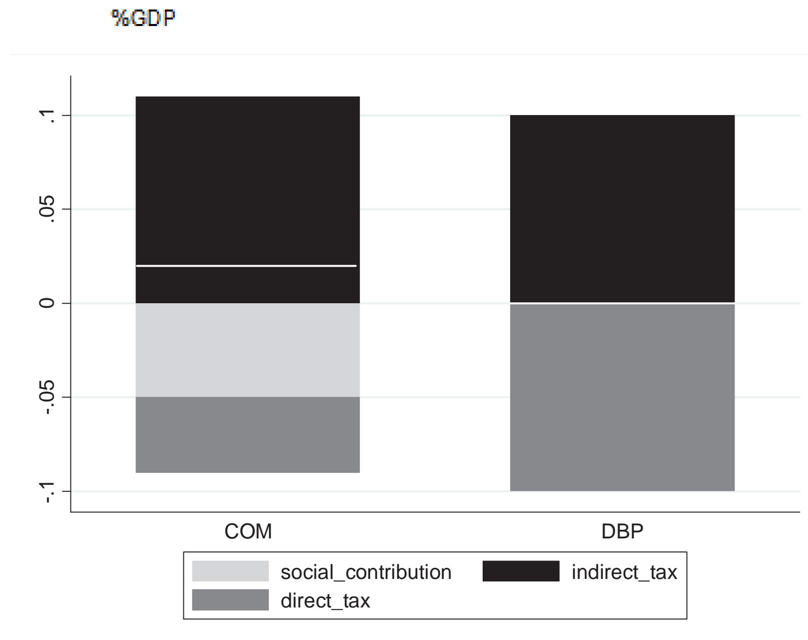
Table A5: Composition of fiscal consolidation in 2013 and 2014 for the EA-13, according to the Draft Budgetary Plans (DBP), the Stability Programmes (SP) and the 2013 Commission autumn forecast (COM)

% GDP unless otherwise specified	2013			2014		
	SP	DBP	COM	SP	DBP	COM
Revenue Ratio	47.7	47.2	47.1	47.1	47.2	47.1
p.p. change with respect to previous year	1.1	0.6	0.5	-0.6	0	0
Expenditure Ratio	50.4	50.0	49.8	49.1	49.5	49.6
p.p. change with respect to previous year	0.5	0.1	-0.1	-1.3	-0.5	-0.2
Change in structural balance	0.8	0.7	0.6	0.4	0.3	0.2

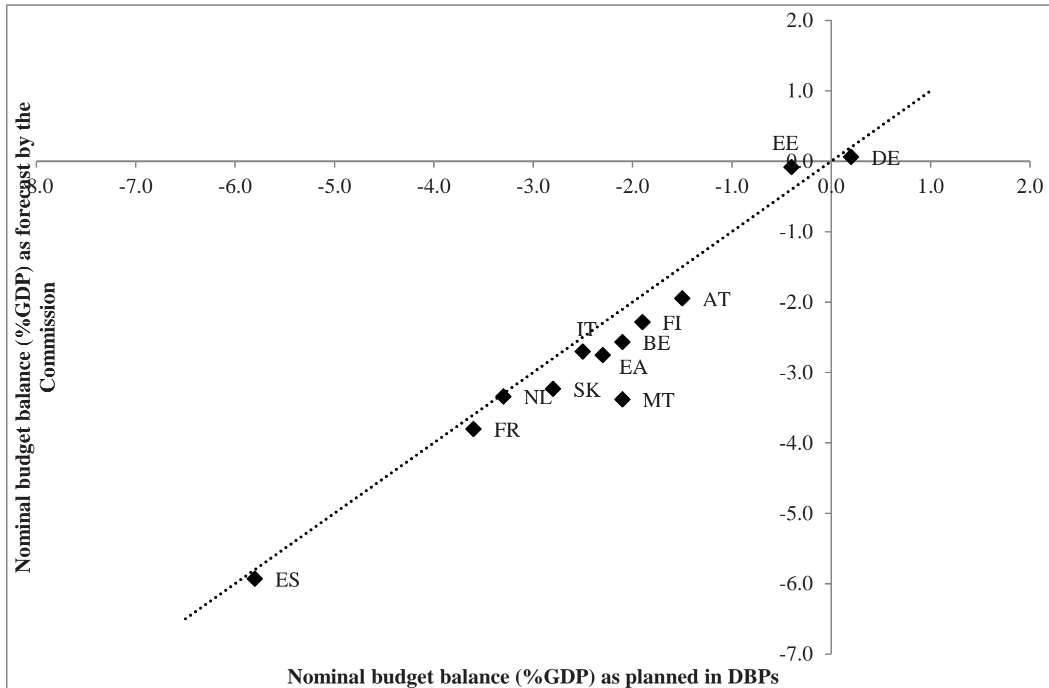
Graph A1: Planned changes in main types of expenditure (% of GDP) for 2014 in EA13: Draft Budgetary Plans (DBP) versus 2013 Commission autumn forecast (COM)



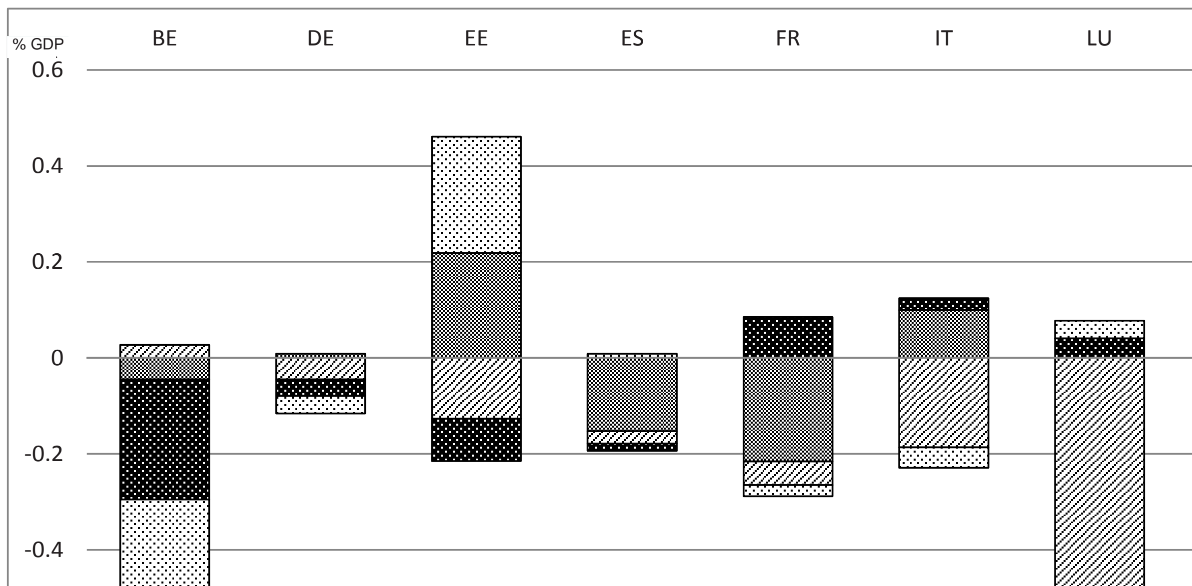
Graph A2: Projected changes in main types of tax revenue (% of GDP) for 2014 in EA13: Draft Budgetary Plans (DBP) versus 2013 Commission autumn forecast (COM)



Graph A3: Comparison of headline government balance (% of GDP) as projected for 2014 by the 2013 Commission autumn forecast (COM) and in the Draft Budgetary Plans (DBP)



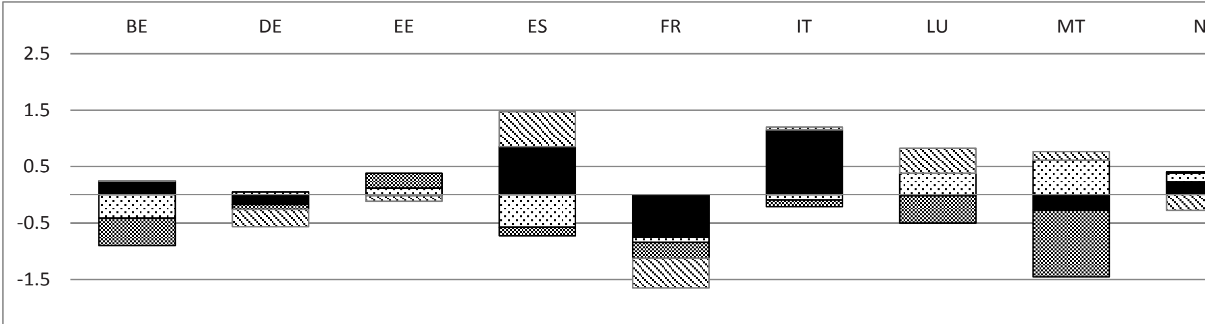
Graph A4: Decomposition of the difference in headline targets (% of GDP) for 2014 between the 2013 Commission autumn forecast and Draft Budgetary Plans



Graph A4 shows the differences in Member States' projected changes in headline deficits as forecast in the DBPs and as projected in 2014 autumn forecast, as a percentage of GDP. The stacked bars represent the different components to which the overall difference can be attributed. Generally, the change in structural balance planned for 2014 in the autumn forecast is 0.3% GDP smaller than the change foreseen in the DBP. A negative value indicates that the

change in general government deficits is projected to be smaller in the 2013 Commission autumn forecast than in the DBPs. The evolution of one-offs is the single largest explanation of a smaller change in the fiscal deficit in Commission's forecast.

Graph A5: Decomposition of the difference in debt targets (% of GDP) for 2014 between the 2013 Commission autumn forecast and Draft Budgetary Plans



Graph A5 shows the difference in debt evolution between 2013 and 2014 as projected in the DBP and in the Commission forecast respectively. A positive difference indicates that the projections of the DBP are for higher debt (or debt component). The different evolution is decomposed into different contributions: base effect, difference in the snowball effect (or interest-growth component), difference in the primary deficit component and difference in the stock-flow adjustments. The evolution of the stock-flow adjustments explains a smaller debt reduction in the Commission forecast.

ANNEX V: Country-Specific assessment of DBP

Plans compliant with the country's obligations under the SGP

Estonia achieved the medium-term objective of a structural surplus in 2012 and should preserve a sound fiscal position which ensures compliance with the medium-term objective. Although Estonia's structural balance deteriorates temporarily from the medium-term objective by ½% of GDP in 2013, the deviation is expected to be corrected by 2014, according to the plan. The deviation from the medium-term objective in 2013 is partly caused by the government's decision to reduce the dividend distribution from state-owned enterprises in 2013 and to introduce additional dividend distributions for 2014 and 2015, i.e. having a positive effect on the 2014 budget. Overall, risks related to fiscal developments are low with nominal budget positions targeted close to balance and with the lowest public debt in EU (10% of GDP in 2014).

The **German** draft budgetary plan projects a balanced general government budget and a diminishing debt-to-GDP ratio in 2013 and 2014. Moreover, in line with the requirements of the preventive arm of the Stability and Growth Pact, Germany complied with its medium-term objective in 2012 and plans to continue doing so in 2013 and 2014. It is also making sufficient progress towards compliance with the debt criterion. These projections are broadly in line with the Commission services' Autumn Forecast and appear overall realistic. However, the draft budgetary plan was submitted by the outgoing federal government on the basis of unchanged policies.

Plans compliant but with no margin

For **France**, the Commission forecast projects that, based on the draft budgetary plan submitted, the nominal deficit will turn out higher than recommended in both 2013 and 2014. The change in the structural balance underlying the projected headline deficit is estimated at 0.9% and 0.7% of GDP for this year and the next. However, when correcting for revisions to potential GDP growth estimates and for unexpected shortfalls in tax receipts when compared with the forecast at the time the Council recommendation was issued, the structural effort comes in at 1.3% and 0.8% of GDP. The corrected structural effort therefore appears just in line with the Council recommendation. The assessment is complemented by a bottom-up assessment of measures, indicating that France has taken additional measures for 2014 adding up to slightly below1% of GDP. Although there are still significant risks to the expected budgetary outcome for 2013 and 2014, France can be considered to have taken effective action in compliance with the Council recommendation of 21 June 2013 to correct the excessive deficit by 2015.

For the **Netherlands**, according to the Commission 2013 Autumn Forecast, the EDP requirements seem to be for 2013 with respect to both the headline and structural deficit targets and effective action in compliance with the Council recommendation of 21 June 2013 has been delivered. For 2014, the headline deficit is forecast to remain above the recommended nominal target of 2.8% of GDP. On the basis of the 2013 Autumn Forecast, the change in the structural balance corrected for revisions in potential growth and unexpected revenue shortfalls is 0.5% of GDP, below the recommended effort of around 0.7% of GDP in the EDP recommendation. A bottom-up assessment shows that the Netherlands has taken additional measures for 2014 of around 1% of GDP, which is in line with the amount of measures deemed necessary to reach the structural targets spelled out in the EDP recommendation.

For **Slovenia**, the headline deficit targets planned in the draft budgetary plan at 5.6% and 6.7% of GDP in 2013 and 2014 are above the EDP headline deficit targets of 4.9% and 3.3% of GDP, respectively. According to the Commission 2013 Autumn Forecast, the change in the structural balance is estimated at -0.1% and 0.7% of GDP in 2013 and 2014 respectively. When corrected for the unexpected revenue shortfalls and revisions in potential growth calculations, the improvement is estimated at 0.6% of GDP in both 2013 and 2014, slightly short of the 0.7% of GDP annual structural effort recommended for 2013, but just above the 0.5% of GDP recommended for 2014. Based on a bottom-up assessment, the overall size of consolidation measures for 2013 adopted after the June 2013 EDP recommendation is just above the 1% of GDP of additional consolidation measures mentioned in the June 2013 EDP recommendation. For 2014, the bottom-up analysis falls slightly short of 1½% of GDP of additional consolidation measures mentioned in June 2013 EDP recommendation. Based on current information it appears the Slovenia has taken effective action in 2013 and seems on track to delivering the recommended structural improvement in 2014, although with no margin.

Plans broadly compliant

For **Belgium**, the headline balance planned in the draft budgetary plan in 2013 is below the 3% of GDP deficit reference value, but according to the Commission forecast slightly above the target of 2.7% of GDP under the EDP. The fiscal effort is currently estimated at 0.8% of GDP. However, when corrected for the downward revision in potential growth since the time of the Council Decision as well as for revenue shortfalls compared to the forecast underlying the Council Decision, the adjusted structural improvement is estimated at 1% of GDP, in line with the effort of 1% of GDP required by the Council. Therefore Belgium can be considered to have taken effective action in compliance with the Council Decision of 21 June 2013. If Belgium corrects its excessive deficit by 2013, it will be subject to the preventive arm of the SGP. Belgium would be making sufficient progress towards compliance with the debt criterion. However, a deviation from the adjustment path towards the MTO is to be expected in 2014 which, if repeated the following year, could be assessed to be significant and could put under risk the compliance with the requirements of the preventive arm of the Pact. Belgium is expected to comply with the debt criterion in 2014.

For **Austria**, the general government deficit is expected to stand below the 3% threshold in 2013 by both the draft budgetary plan and Commission forecast, in line with the Council's EDP recommendation to correct the excessive deficit by 2013. Uncertainty over the cost of the anticipated bank support could possibly jeopardise the requirement of a durable correction of the deficit. In case the Council abrogates the EDP procedure in spring 2014, Austria would comply with the transition period from 2014 for the debt criterion. However, Austria is not envisaging pursuing an annual structural adjustment towards the MTO by more than 0.5% next year, and a significant deviation in terms of the change in the structural balance would emerge. However, the draft budgetary plan was submitted by the outgoing federal government on the basis of unchanged policies.

Based on the DBP and the Commission forecast, **Slovakia** is expected to bring the deficit in line with the 3% of GDP threshold in 2013, which is the deadline set by the Council for correction of the excessive deficit. The average annual fiscal effort for the period 2010-13,, adjusted for changes in potential growth and revenue shortfalls compared to the forecast underpinning the EDP recommendation amounts to 2% of GDP, which is well above the annual average fiscal effort of 1% of GDP recommended by the Council. For 2014 the draft budgetary plan targets a headline deficit of 2.8% of GDP, while on current policies the

Commission projects the deficit to increase to 3.2% of GDP, suggesting that a durable correction of the excessive deficit may not be ensured. This implies that additional measures may be needed to ensure sustainability of the correction which is a pre-condition for EDP abrogation. Moreover, in 2014 Slovakia does not fully respect the requirements of the preventive arm of the SGP as the structural balance is projected to deteriorate.

Plans at risk of non-compliance

Italy's draft budgetary plan projects the government deficit to decline to 2.5% of GDP in 2014 from 3% in 2012 and 2013. In structural terms (i.e. the cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the Draft Budgetary Plan, using the commonly agreed methodology), the government projections imply an overall improvement of 0.5 percentage points (p.p.) of GDP in 2013 and 0.2 p.p. in 2014 (after 2¼ p.p. in 2012), with a structural position still in deficit in 2014 (-0.7% of GDP). In the Commission Forecast, the 2014 deficit is expected at 2.7% of GDP. This is essentially explained by lower economic growth, so that the structural balance is in line with the recalculated structural balance in the draft budgetary plan. Downside risks are associated to the lack of full implementation of measures already enshrined in legislation and a watering down of the draft budgetary plan in Parliament. In the draft budgetary plan the general government gross debt is projected to peak at around 133% of GDP in 2013 and then stabilise in 2014. In 2014, Italy is not making sufficient progress towards compliance with the debt criterion due to insufficient structural adjustment in the Commission Forecast (0.1 p.p. of GDP vs. the required 0.7 p.p.). Italy has included about ¼ p.p. of GDP expenditure in the draft budgetary plan, related to the government's intention to benefit from the so-called "investment clause". However, as Italy does not comply with the debt criterion in 2014, this would lead to non-eligibility to the investment clause. Therefore, Italy should continue to make sufficient progress towards the MTO also in 2014, by ensuring the necessary structural adjustment. The structural balance points to a deviation in 2014 which, if repeated the following year, could be assessed to be significant and could put at risk compliance with the requirements of the preventive arm of the SGP.

For **Luxembourg**, according to the Commission 2013 Autumn Forecast, the general government balance, in nominal terms, is expected to deteriorate from a deficit of 0.6% in 2012 to a deficit of 0.9% and 1% of GDP in 2013 and 2014, respectively. In structural terms, the surplus of the general government balance is expected by both the Draft Budgetary Plan and Commission forecast, to narrow from 0.8% in 2012 to only 0.2% of GDP in 2013, i.e. below the MTO set at a surplus of 0.5% of GDP. Under the no-policy change assumption, the structural balance is then projected to further deviate from the MTO and even to turn into a deficit of 0.4% of GDP in 2014. In sum, Luxembourg is expected to depart from its MTO in 2013 and further deviate from it in 2014. However, the draft budgetary plan was submitted by the outgoing government on the basis of unchanged policies.

For **Malta**, on the basis of the Commission 2013 autumn forecast, the 2013 deficit is projected to meet the EDP requirement. At the same time, according to the Commission 2013 Autumn Forecast, the change in the adjusted structural balance (0.5% of GDP) comes below the recommended annual structural effort (0.7% of GDP). Therefore, while Malta can be considered to have complied so far with the Council recommendation of 21 June 2013, there is a risk that the correction of the deficit may not be achieved, owing to the apparent lack of a sufficient effort to support it. The situation will have to be reassessed against the spring 2014 notified data. By contrast, pending the assessment of the 2014 budget, the EDP requirements for 2014 are not fulfilled both in nominal and structural terms as the Commission deficit

forecast remains above the EDP target of 2.7% of GDP and the adjusted structural balance (0.3% of GDP) is lower than the recommended annual fiscal effort (0.7% of GDP) in 2014. However, the projected deficit for 2014 (3.4% of GDP versus the recommended 2.7% of GDP) does not incorporate the consolidation measures in the 2014 budget, the details of which were not available by the cut-off date. It should be noted that, taken at face value, the measures included in the DBP would reduce the deficit forecast by 0.2% of GDP. This would still be insufficient to comply with the EDP recommendation.

For **Spain**, the Commission autumn forecast foresees a deficit of 5.9% of GDP in 2014, slightly above the 5.8% of GDP target contained in the draft budgetary plan submitted by the Spanish government. Yet, the uncertainty surrounding the budgetary outcomes in 2013 and 2014 is still very high. Based on current information, Spain appears to have taken effective action towards correcting the excessive deficit in 2013, but there is a risk that the draft budgetary plan for 2014 will not fulfil the requirements in the EDP recommendation. The draft budgetary plan is based on somewhat favourable growth assumptions and there are some implementation risks concerning certain of the measures included in the Plan. This poses risks to achieving the headline target. Moreover, the planned structural effort appears to fall short of what was deemed necessary in the EDP recommendation. Therefore, Spain is invited to take the necessary measures within the national budgetary process to ensure that the 2014 budget will be fully compliant with the Stability and Growth Pact. For 2015 and 2016, the budgetary adjustment falls clearly short of the EDP recommendation and Spain has yet to specify the structural measures for the years 2015-16 that are necessary to correct the excessive deficit by 2016.

For **Finland**, the draft budgetary plan foresees a higher (2.2% of GDP) general government deficit compared with the projections made in the Stability Programme (1.9%) for 2013. For 2014, the draft budgetary plan projects a narrowing of the general government deficit to 1.9% of GDP, against a deficit of 2.3% in the Commission autumn forecast. These differences are attributable to lower growth but also different estimates of budgetary trends. According to the Commission forecast there is a risk for a significant deviation from the MTO or the adjustment path in 2014. As public debt is expected to rise above 60% of GDP in 2014, the Commission has prepared a report under Article 126(3) of the Treaty to examine whether the debt position warrants the launch of an EDP.