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COMMUNICATION FROM THE COMMISSION

2018 Draft Budgetary Plans: Overall Assessment

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Executive summary

This Communication summarises the Commission's assessment of the Draft Budgetary Plans (DBPs) for 2018 submitted by eighteen euro area Member States (EA-18, which does not include Greece that is under the ESM stability support programme). Austria and Germany submitted *no-policy-change* plans because their governments did not have full budgetary powers at the time of submission. Spain submitted a *no-policy-change* plan due to a delay in the budgetary process. In line with Regulation (EU) No 473/2013, the Commission has assessed Member States' Draft Budgetary Plans and the overall budgetary situation and fiscal stance in the euro area as a whole.

The overall assessment of the 2018 DBPs and the aggregate fiscal stance for the euro area can be summarised as follows:

1. Member States and the Commission have revised growth projections substantially upwards since spring. With the economy growing above its potential, the aggregate output gap is further narrowing in 2017 and is expected to turn positive in 2018. Nevertheless, the recovery in the euro area is characterised by some atypical features: subdued core inflation and wage growth that do not reflect the labour market improvements as signalled by standard labour market indicators, a large current account surplus and a persisting, though declining, investment gap.

2. The Member States' plans imply that the aggregate headline deficit continues its downward trend on the back of cyclical improvements. According to the Commission 2017 autumn forecast, the euro area deficit decreases from 1.6% of GDP in 2016 to 1.1% in 2017. In 2018, the implementation of Member States' plans would result in a headline deficit of 0.9% of GDP for the euro area, which is also confirmed by the Commission forecast.

3. The implementation of DBPs would reduce the euro area debt ratio from 88% of GDP in 2017 to just over 86% in 2018, thanks to the cyclical upswing and continued low interest rates. Prima facie, Belgium and Italy are not projected to be compliant with the debt reduction benchmark in either 2017 or 2018 according to the Commission's forecast. This is also the case for France which, in the event of a timely and sustainable correction of its excessive deficit, would become subject to the transitional debt rule as of 2018.

4. After a marginal structural improvement in 2017, the DBPs correspond to a slight increase of the euro area's structural deficit in 2018, by 0.1% of GDP, while the most recent Stability Programmes still planned a 0.2% of GDP improvement on aggregate. The Commission also projects an increase of 0.1 pp. in 2018 for the euro area. This hides however substantial differences between the Commission forecast and the DBPs for individual Member States.

5. Regarding the composition of the fiscal adjustment, Member States project a moderate decline in the cyclically-adjusted expenditure ratio. This development is driven by declining interest expenditure (-0.1% of GDP) as well as primary expenditure growing at a slightly lower pace than potential growth. Windfalls from lower interest expenditure should be used to accelerate debt reduction. Public

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investment is planned to slightly increase in 2018, after a steady decline between 2010 and 2016. The revenue ratio is expected to decline on the back of revenue-reducing measures (-0.1% of GDP) as well as revenue shortfalls amounting to -0.2% of GDP.

6. The euro area fiscal stance, as measured by the change in the aggregate structural balance, is broadly neutral in 2018. Compared to the structural balance, the structural *primary* balance points to a slightly more expansionary stance in 2018, as it does not include the ongoing decline in interest expenditure. Also 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 in 2017 and 2018, both according to the DBPs and on the basis of the Commission forecast.

7. A broadly neutral fiscal stance at aggregate level for the euro area appears appropriate in the light of the current economic recovery in the euro area, which is characterised by some atypical features, the debt legacy from the crisis and the expected recalibration of asset purchases by the ECB.

8. The aggregate situation hides considerable differences between Member States, with some facing the need to consolidate, while others have some fiscal space. A differentiated approach to national fiscal policies is thus needed in order to balance the objectives of stabilising the economy and ensuring the longer-term sustainability of public finances.

9. Overall, large differences remain in Member States' positions vis-à-vis their medium-term budgetary objectives (MTO). According to the Commission forecast, six euro area Member States are at (Lithuania) or above their MTO (Cyprus, Germany, Luxembourg, Malta and the Netherlands) in 2017. They are all projected to remain so in 2018, while some of them are projected to use part of their fiscal space. According to its *no-policy-change* DBP, also Germany is expected to use some of its fiscal space. Ireland is projected to reach its MTO in 2018 while Slovakia is set to make substantial progress towards it. At the same time, for some Member States that are still far away from their MTO, the Commission forecast does not project any major improvement (Spain, Italy, Portugal and Slovenia) or even expects a deterioration of the structural balance (Belgium and France). Apart from Slovenia, these are also the Member States with the highest debt ratios.

10. With the objective of balancing stabilisation needs with possible sustainability challenges, the Commission can exercise its degree of discretion when assessing a departure from the required fiscal adjustment. In particular, the Commission concluded that a fiscal adjustment that departs from the requirement can be deemed adequate for Italy and Slovenia, provided that they effectively ensure such a fiscal adjustment in 2018. However, such an adjustment does not appear to be delivered according to the Commission forecast.

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

No DBP for 2018 has been found in particularly serious non-compliance with the requirements of the Stability and Growth Pact (SGP). In several cases, however, the Commission finds that the planned fiscal adjustment falls short, or is at risk of doing so, of what is required by the SGP.

Regarding the sixteen countries in the preventive arm of the SGP:

- for six countries (**Germany**, **Lithuania**, **Latvia**, **Luxembourg**, **Finland** and **the Netherlands**), the DBPs are found to be **compliant** with the requirements for 2018 under the SGP.

- for five countries (**Estonia**, **Ireland**, **Cyprus**, **Malta**, and **Slovakia**), the DBPs are found to be **broadly compliant** with the requirements for 2018 under the SGP. For these countries, the plans might result in some deviation from each country's MTO or the adjustment path towards it.

- for five countries (**Belgium**, **Italy**, **Austria**, **Portugal**, and **Slovenia**), the DBPs pose a **risk of non-compliance** with the requirements for 2018 under the SGP. The DBPs of these Member States might result in a significant deviation from the adjustment paths towards the respective MTO. For **Belgium** and **Italy**, non-compliance with the debt reduction benchmark is also projected.

Regarding the two countries in the corrective arm of the SGP (i.e. in Excessive Deficit Procedure):

-for **France**, which could become subject to the preventive arm from 2018 onwards if a timely and sustainable correction of the excessive deficit is achieved, the DBP is found to be **at risk of a non-compliance** with the requirements for 2018 under the SGP, as the Commission 2017 autumn forecast projects a significant deviation from the required adjustment path towards the MTO and non-compliance with the debt reduction benchmark in 2018.

- for **Spain**, the DBP is found to be **broadly compliant** with the requirements for 2018 under the SGP, as the Commission 2017 autumn forecast projects that the headline deficit will be below the Treaty reference value of 3% of GDP in 2018, although the headline deficit target is not projected to be met and there is a significant shortfall in fiscal effort compared to the recommended level.

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1. Introduction

EU legislation foresees that euro area Member States submit Draft Budgetary Plans (DBPs) 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.[1]

These 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 (SGP).

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

Eighteen euro area Member States (hereafter EA-18 or 'euro area')[2] were required to submit their 2018 DBPs to the Commission by 16 October, in line with the provisions of the so-called "Two-Pack".[3] Greece, which is under the ESM stability support programme, is not obliged to submit a plan, as the programme already provides for close fiscal monitoring.

In line with the guidelines of the Two-Pack Code of Conduct, Austria and Germany submitted no-policy-change DBPs because these Member States have only caretaker governments without full budgetary powers following recent elections.[4] The incoming governments are expected to submit full DBPs once they take office. Spain has also submitted a no-policy-change DBP as the procedure for the approval of the Central Government and Social Security budgets has lagged behind its usual schedule. It is expected to submit a full DBP as soon as possible.

While respecting Member States' budgetary competence, the Commission's Opinions provide informed evidence-based policy advice, in particular for national governments and parliaments, to facilitate the assessment of the draft budgets' compliance with EU fiscal rules. The Two-Pack 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 addition, in July 2015, the Council invited the Eurogroup to monitor and coordinate euro area Member States' fiscal policies and the aggregate fiscal stance for the euro area to ensure a growth-friendly and differentiated fiscal policy.[5] The Council recommended that euro area Member States, without prejudice to the fulfilment of the requirements of the SGP, "*coordinate fiscal policies to ensure that the aggregate euro area fiscal stance is in line with sustainability risks and cyclical conditions*".

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1 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.

2 Therefore, in the remainder of this Communication, euro area refers to the aggregate of euro area member states excluding Greece.

3 As the submission deadline of 15 October fell on a Sunday in 2017, in line with the applicable legal rules, the deadline was extended to Monday 16 October 2017.

4 "*Specifications on the implementation of the Two Pack and Guidelines on the format and content of draft budgetary plans, economic partnership programmes and debt issuance reports*", endorsed by ECOFIN on July 9, 2013, and amended on November 7, 2014, available at http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2014-11-07_two_pack_coc_amended_en.pdf

5 Council Recommendation of 14 July 2015 on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro (OJ C 272, 18.8.2015, p. 100).

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In November 2016, the Commission proposed an updated Recommendation on the economic policy for the euro area, which was endorsed by EU leaders at the European Council meeting on 9 and 10 March 2017 and adopted by the Council on 21 March 2017.[6] This recommendation is an anchor for the Commission's assessment. As part of the annual cycle of the European Semester, the Commission is also proposing a new Recommendation on the economic policy of the euro area for 2018-2019 alongside this package.[7]

In July 2017, the Council adopted country-specific recommendations highlighting the Commission's intended treatment of Member States for which the matrix implies a fiscal adjustment of 0.5% of GDP or above.[8] The recitals stated that the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of Member States' public finances. In that context, the Council noted that the Commission intends to carry out an overall assessment in line with Regulation (EC) No 1466/ 97, in particular in the light of the cyclical situation of the Member State.

The objective of this Communication is twofold. Firstly, it provides an overall picture of budgetary policy at euro area level, building on a horizontal assessment of the DBPs. This 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 DBPs at country level, explaining the Commission's approach in assessing their compliance with the requirements of the SGP. The assessment is differentiated according to whether a Member State is in the preventive or the corrective arm of the SGP and also takes into account the requirements relating to the level and dynamics of government debt.

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[6] See Council Recommendation of 21 March 2017 on the economic policy of the euro area (OJ 2017/C92/01): http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017H0324(01)&from=EN

[7] See COM(2017) 770 final.

[8] Matrix specifying the annual fiscal adjustment towards the Medium-Term Objective under the preventive arm of the SGP, as set out in the Commission Communication of 13 January 2015 on making the best use of the flexibility within the existing rules of the Stability and Growth Pact, see: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015DC0012&from=EN

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2. Main euro area findings

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

Member States and the Commission have revised growth projections substantially upwards since spring. According to the macro-economic assumptions provided in the DBPs, aggregate real GDP in the euro area (excluding Greece) is now expected to grow by 2.2% in 2017 and 2.0% in 2018. This is substantially higher than the growth outlook for these years underlying the most recent Stability Programmes (see Table 1), when it stood at 1.7% for both years. The Commission 2017 autumn forecast projects similarly strong growth rates for the euro area, at 2.2% in 2017 and 2.1% in 2018. All in all, the economic assumptions of the DBPs are very close to the Commission forecast (see Annex IV Table 1). This may also be related to the fact that all Member States, with the exception of Germany and Belgium, comply with the requirement of Regulation EU 473/2013 to base the draft budget, and implicitly the DBP, on independently endorsed or produced macro-economic forecasts.

With the economy growing above its potential, the output gap is further narrowing in 2017 and is expected to turn positive in 2018. The aggregate output gap, both on the basis of the Commission forecast as well as on the basis of the plans, turns positive in 2018. All DBPs assume a (recalculated) output gap that is positive in 2018, or, in the case of France and Finland, just marginally negative.[9]

Both the Member States and the Commission expect headline inflation to remain stable and below the benchmark rate of 2%. According to the plans, headline inflation in the euro area is set to reach 1.5% in 2017 and 1.4% in 2018. This is broadly unchanged compared to the assumptions of the Stability Programmes, while also the Commission forecast projects an identical inflation rate for the euro area. Only in Estonia, Latvia and Lithuania, inflation is expected to exceed 2%.

The economic expansion in the euro area continues, but is characterized by some atypical features. The recovery in the euro area has strengthened and has become increasingly broad-based across countries amid steady employment gains and improving business sentiment. It is nonetheless characterised by some atypical features. Specifically, core inflation and wage growth remain subdued and do not reflect the labour market improvements as signalled by standard labour market indicators. In particular, subdued wage growth appears to be due to remaining labour market slack in some economies, low inflation expectations feeding in wage negotiations and low productivity growth. Lastly, the recovery appears to still be supported by exceptional tailwinds such as the ECB's accommodative monetary policy. Against this background, there is a case for only gradually unwinding policy support to growth. Indeed, the Commission announced that it intends to make use of its degree of discretion in the light of the cyclical situation of the Member States (see Box 1).

[9] The output gap on the basis of the Draft Budgetary Plans is recalculated by the Commission on the basis of the information provided in the plans using the commonly agreed methodology. The output gap taken at face value from the plans remains negative in the case of Belgium, France and Italy.

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Table 1: Overview of economic and budgetary aggregates (EA-18) for 2017-2018

	2017			2018		
	2017 Stability Programmes (April)	Draft Budgetary Plans (October)	Commission 2017 autumn forecast (November)	2017 Stability Programmes (April)	Draft Budgetary Plans (October)	Commission 2017 autumn forecast (November)
Real GDP growth (% change)	1.7	2.2	2.2	1.7	2.0	2.1
HICP inflation (% change)	1.4	1.5	1.5	1.5	1.4	1.4
Headline balance (% GDP)	-1.3	-1.2	-1.1	-0.9	-0.9	-0.9
Change in structural balance (% GDP)	0.1	0.1	0.0	0.2	-0.1	-0.1
Public debt (% GDP)	88.7	87.9	87.8	87.1	86.3	85.8
Cyclically-adjusted expenditure ratio (% potential GDP)	47.3	47.2	47.0	47.0	46.9	47.0
Cyclically-adjusted revenue ratio (% potential GDP)	46.2	46.1	46.1	46.1	45.8	45.8

Source: 2017 Stability Programmes, 2018 Draft Budgetary Plans, European Commission 2017 autumn forecast.

Fiscal outlook according to the plans and the Commission forecast

The aggregate headline deficit is expected to continue its downward trend on the back of cyclical improvements. According to the Commission forecast, the euro area deficit will decrease from 1.6% of GDP in 2016 to 1.1% in 2017. The DBPs expect a marginally higher deficit outcome in 2017, at 1.2%, which is 0.15 pp. better than the target of the Stability Programmes submitted by Member States in spring 2017 when growth assumptions were however significantly less dynamic. A large upward revision of the 2017 deficit target compared to the Stability Programme only occurs in the case of Slovakia. In 2018, the implementation of Member States' plans would result in a headline deficit of 0.9% of GDP for the euro area. This confirms the aggregate headline deficit coming out of the spring 2017 Stability Programmes, despite the better-than-previously expected outcome for 2017 and a substantial upward revision of the 2018 growth outlook. This means implicitly that the structural adjustment has been somewhat revised downwards compared to the latest Stability Programmes (see below). While differences between plans and the Commission forecast exist for individual Member States (see Annex IV Table 2), the 2018 aggregate deficit of the Commission forecast is fully in line with the plans.

Seven out of 18 Member States plan a surplus of the headline balance in 2018. From the Member States in deficit, only Latvia and Finland plan an increase in their headline deficit. No Member State plans a deficit above the 3% of GDP reference value in 2018. France plans to correct its excessive deficit in 2017, as recommended by the Council, while Spain plans to correct it by its deadline of 2018. Slovakia, Italy, Belgium and France plan substantially larger deficits than in their Stability Programmes.

The aggregate *primary* balance of the euro area, obtained by removing interest expenditure from the headline balance, is in surplus. It is planned to further improve from 0.8% of GDP in 2017 to 0.9% of GDP in 2018. France, Latvia and Finland are the only euro area Member States that plan a primary deficit in 2018.

There is barely any fiscal adjustment over 2017-2018 in the budgetary plans, or in the forecast, as measured by the change in the aggregate structural balance.[10] Overall, the Commission forecast expects the euro area structural balance to remain stable in 2017. The (recalculated) budgetary plans expect a marginal structural improvement in 2017, in line with the Stability Programmes. For 2018, the Draft Budgetary Plans result in a slight deterioration of the structural balance for the euro area, by 0.1% of GDP, while the most recent Stability Programmes still planned a 0.2% of GDP improvement on aggregate (see Annex IV, Table 3). The Commission also projects a deterioration of 0.1 pp. in 2018 for the euro area, similar to the Plans. However, this hides substantial differences with the DBPs for individual Member States. In particular, the Commission projects a substantially lower structural adjustment in Belgium, Spain, France, Lithuania, Portugal and Slovenia (see below). In the euro area aggregate, this is offset by a stable structural balance in Germany, compared to a 0.5% of GDP expansion in Germany's DBP.

Overall, large differences remain in Member States' positions vis-à-vis their Medium Term Objectives (MTOs) (see Annex IV, Graph 5)**.** According to the Commission forecast, six euro area Member States are at (Lithuania) or above their MTO (Cyprus, Germany, Luxembourg, Malta and the Netherlands) in 2017.[11] They are all projected to remain so in 2018, while some of the 'over-achievers' are projected to use part of their fiscal space.[12] According to its *no-policy-change* DBP, also Germany is expected to use some of its fiscal space.[13] Of the Member States not yet at their MTO, Ireland is projected to reach it in 2018 while Slovakia is set to make substantial progress towards it. On the other hand, for some Member States that are still far away from their MTO, the Commission currently hardly projects any improvement (Spain, Italy, Portugal and Slovenia) or even expects a deterioration (Belgium and France). Apart from Slovenia, these are also the Member States with the highest debt ratios (see below). The (recalculated) DBPs plan a larger adjustment compared to the forecast for these Member States, ranging from 0.0% pp. of GDP in the case of France to 0.5% of GDP in the case of Slovenia. Lastly, also Estonia, Austria, Finland and Latvia are projected to move somewhat further away from their MTO, while remaining within a distance of 1pps. of GDP.

Compared to the structural balance, the Discretionary Fiscal Effort (DFE), calculated on the basis of the Commission forecast, is somewhat more expansionary in 2017 and

[10] The structural balance is the cyclically-adjusted balance net of one-off and temporary measures. The structural balances of the DBPs are recalculated by the Commission on the basis of the information provided in the programme using the commonly agreed methodology.

[11] Based on the plans, also Estonia is at its MTO in 2017. It plans to remain so but this is not confirmed by the recalculated figure.

[12] In particular, Cyprus, Luxembourg, Malta and the Netherlands.

[13] However, this fiscal expansion is not reflected in the Commission forecast, which projects a stable structural balance. For the euro area aggregate, the less expansionary stance of Germany in the Commission forecast is offset by a substantially more expansionary or less contractionary stance in the forecast compared to the plans of some other Member States (In particular Belgium, Spain, France, Lithuania, the Netherlands, Portugal, Slovenia).

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2018.[14] The DFE is conceptually close to the expenditure benchmark of the EU fiscal framework, and gives the sum of planned revenue measures and primary expenditure developments relative to (medium-term) potential growth rate. Calculated on the basis of the forecast, the DFE points to an expansion of almost 0.4% of GDP in 2017. This is especially the result of primary expenditure growth exceeding medium term potential growth, while discretionary revenue measures are neutral in 2017. The difference with the change in the structural balance is partly explained by the fact that interest gains are not taken into account in the DFE.[15] In 2018, the DFE calculated on the basis of the plans confirms the reading of the structural balance, pointing to a close to neutral aggregate stance of the policy plans. Primary expenditure growth in the euro area is planned to slightly exceed the medium term potential growth, while discretionary revenue measures are only marginally expansionary (see below). The DFE calculated on the basis of the Commission forecast amounts to 0.25% of GDP, pointing to a somewhat more expansionary fiscal stance in 2018 (see Annex IV, Graph 4).[16]

Public debt is expected to continue its declining path thanks to the cyclical upswing and continued low interest rates. General government debt of the euro area, which peaked in 2014 at almost 93% of GDP, is expected to decline from 89.6% of GDP in 2016 to just below 88% of GDP in 2017, both on the basis of the Commission forecast as well as on the basis of Member States' plans. Aggregated plans result in a further debt reduction to just over 86% of GDP in 2018. The decline in 2018 is driven by a debt-reducing snowball effect and a primary surplus, while planned stock-flow adjustment contribute in the opposite direction. According to the Commission forecast, the decline in the debt ratio will be slightly larger.

All Member States but France plan a decline in the debt-to-GDP ratio over 2017-2018 (See Annex IV, Table 6). In the case of France, debt is expected to stabilise just below 97% of GDP. All Member States benefit from a debt-reducing snowball effect and also the planned primary surpluses in most Member States have a downward impact (see Annex IV, Graph 6). In general, divergences in debt developments for 2018 between the Commission forecast and the DBPs are relatively limited, except in the case of Cyprus and Slovenia where plans are more optimistic, and Germany where the Commission forecast is more optimistic. Italy and Portugal remain the Member States with the highest public debt level, above 120% of GDP, while Belgium, Cyprus, France and Spain are hovering around 100% of GDP. Ten euro area Member States that submitted DBPs are currently subject to the debt reduction benchmark.[17] Prima facie, Belgium and Italy are not projected to be compliant with it in 2018 according to the Commission's forecast. This is also the case for France which, in the event of

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[14] The discretionary fiscal effort (DFE) is an indicator for the fiscal effort. It combines a top-down approach on the expenditure side with a bottom-up or narrative approach on the revenue side. In a nutshell, the DFE 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

[15] Also the different reference growth rate underlying the calculation of the DFE plays a role.

[16] The difference with the plans is explained by a more dynamic primary expenditure pattern, while discretionary revenue measures (excluding one-offs) are broadly neutral as is the case in the plans. The more expansionary stance of the DFE compared to the reading of the structural balance is explained by the fact that it does not include interest windfalls and has a lower underlying reference growth rate, which only partly offset the impact of revenue shortfalls which impact the change structural balance.

[17] Or with the transitional debt rule during the three years following the correction of an excessive deficit.

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a timely and sustainable correction of its excessive deficit, would become subject to the transitional debt rule as of 2018.

Composition of fiscal adjustment

Member States project a moderate decline in the cyclically-adjusted expenditure ratio, which is fully offset by a similar drop in the revenue ratio. According to plans, the cyclically-adjusted expenditure ratio is expected to fall 0.25 pp, driven by declining interest expenditure as well as primary expenditure growing at a slightly lower pace than potential growth. In comparison, the Commission forecast expects somewhat more dynamic primary expenditure developments, resulting in a stable cyclically-adjusted expenditure ratio. Member States plan outlays on social payments and compensation of employees to grow less than nominal GDP, contributing to the drop in expenditure ratio (see Annex IV, Graph 8). Public investment on the other hand is planned to slightly increase in 2018, after a steady decline between 2010 and 2016. The Commission forecast confirms this slight rebalancing of public expenditure. Interest expenditure, both in the plans and in the Commission forecast, decreases by 0.1 pp.to reach 1.9% of GDP in 2018. In 2012, at the peak of the sovereign-debt crisis, interest expenditure amounted to 3.0% of GDP. All Member States, except Cyprus, assume a further decline in the implicit interest rate on the outstanding debt. On average, the implicit interest rate underlying the DBPs falls from 2.25% in 2017 to 2.15% in 2018, similar to the Commission's assumptions.

The revenue ratio is expected to decline on the back of revenue-reducing measures as well as revenue shortfalls. The total deficit-increasing impact of reported revenue-measures amounts to 0.1% of GDP according to the plans, while Member States also expect almost 0.2% of GDP of revenue shortfalls compared to what could be expected based on the nominal growth outlook (See Annex IV, Table 8).[18] The decrease in the revenue ratio is mainly driven by a decline in social contributions and a decline in non-tax revenues. According to the plans, both direct taxes and indirect taxes remain unchanged as percentage of GDP. The Commission forecast projects a similar impact of revenue measures and revenue shortfalls.

Assessment of the fiscal policy orientation in the euro area.

Overall, the euro area fiscal stance is expected to remain broadly neutral over 2017-2018. Following significant fiscal consolidation between 2011 and 2013, the aggregate fiscal stance turned broadly neutral in subsequent years. It is estimated to remain so in 2017. Measured by the change in the structural balance, both the aggregation of Member States' DBPs and the Commission forecast point to the continuation of a broadly neutral stance in 2018, with the structural balance only marginally deteriorating. The evolution of the structural primary balance points to a slightly more expansionary stance in 2018 (see Annex IV, Table 4), as it does not include the ongoing decline in interest expenditure. This is also confirmed by the Discretionary Fiscal Effort (see above) calculated on the basis of the Commission forecast (see Annex IV, Graph 4).

[18] The aggregate revenue-to-GDP elasticity of both the plans and the Commission forecast is around 0.9, compared to a standard revenue-to-output gap elasticity of 1.

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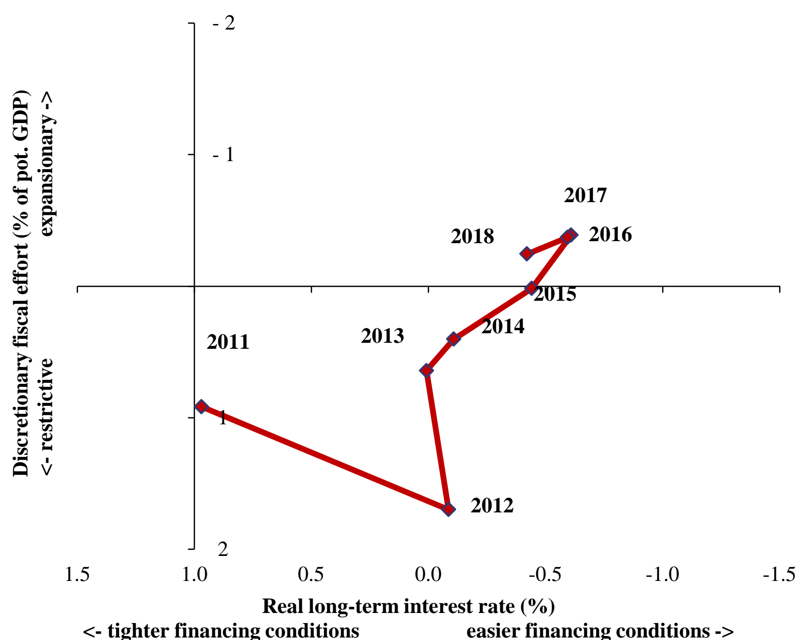
A broadly neutral fiscal stance at aggregate level for the euro area appears still appropriate in the light of the current economic recovery, which is strengthening but remains incomplete. This is even more relevant in the context of a persistent debt legacy from the crisis. Striking the right balance between ensuring the long-term sustainability of public finances, depending on country-specific conditions, and supporting the economic recovery is of the essence. Indeed, the orientation of the fiscal position in 2017-2018 needs to be assessed against the dual objectives of long-term sustainability and short-term macro-economic stabilisation. Long-term sustainability requires that public debt is put and maintained on a sustainable path, taking into account the current level of debt and projected future ageing-related expenditure. While macroeconomic stabilisation can be expressed in terms of closing the output gap at an appropriate pace in the short to medium term, it should also factor in other economic elements, such as the level of inflation, the slack in the labour market and the need to rotate from external to domestic sources of growth.

Graph 1: Real long-term interest rate (%) and discretionary fiscal effort (% of potential GDP), euro area



Source: European Commission 2017 autumn forecast

Note: A real long term interest rate of +1.0 is considered broadly in line with potential growth over the forecast horizon

The fiscal stance should take due consideration of the very accommodative monetary policy in a context of low inflation. The monetary policy has been very accommodative in recent years in the euro area. The ECB has undertaken a range of monetary policy easing measures, including cuts in policy rates into negative territory, targeted long-term refinancing operations, asset purchasing programmes and forward guidance. Overall, these measures have provided a substantial monetary stimulus. The ECB recently decided to recalibrate its asset purchase programme from January 2018 onwards in light of an increasingly robust and broad-based economic expansion in the euro area. At the same time, it was considered that an ample degree of monetary stimulus remained necessary as domestic price pressures were still muted overall and the economic outlook and the path of inflation remained conditional on continued support from monetary policy. Despite an assumed continuation of favourable financing conditions, the latest ECB staff macroeconomic projections for the euro area expect

headline inflation to strengthen only gradually and stay significantly below 2% over the 2017-2019 period. This is also broadly in line with the latest inflation forecast of the European Commission.

The joint orientation of monetary and fiscal policies (the 'policy mix') can be respectively proxied by the evolution of financing conditions (e.g. real long-term interest rate) and fiscal efforts (e.g. discretionary fiscal effort). As shown in Graph 1, financing conditions eased substantially between 2011 and 2012, thanks to the ECB intervention in response to the crisis. Financing conditions have then continued easing after 2013, but to a lesser extent. In fact, while the ECB managed to exert downward pressure on nominal long-term interest rates with its additional measures, long-term inflation expectations also declined and only started to pick up towards the end of 2016. Financing conditions are expected to turn less loose in 2018, when the euro area output gap is finally projected to close. In 2018, average real long-term rates are expected to increase, as the expected gradual rise in nominal rates is set to be accompanied by a relatively more limited pick-up in inflation expectations further out.[19] However, financing conditions are expected to remain very supportive overall.

The aggregate situation of the euro area nonetheless hides considerable differences at national level, with some countries facing the need to consolidate, while others have some fiscal space (see Graph 2 and 3). While in most Member States output gaps are expected to be positive in 2018, there remains significant slack in the economy in several Member States.[20] On the other hand, some Member States face high sustainability risks. Based on the Commission 2017 autumn forecast, a sustainability risk assessment has been carried out, taking into account, inter alia, current debt levels and primary balance, as well as the expected cost of ageing.[21] No Member State appears to face short-term sustainability risks. Based on a debt sustainability analysis as well as the calculation of the S1 indicator, Belgium, Spain, France, Italy, Portugal and Finland appear to face high medium-term risks, while for Cyprus, Lithuania, Austria and Slovenia, medium-term risks are assessed as medium.[22]

A differentiated approach to national fiscal policies is thus needed in order to balance the objectives of stabilising the economy and ensuring the longer-term sustainability of public finances. However, based on the Commission forecast, the expected fiscal adjustment is relatively limited or even negative for some high-indebted Member States, such as Italy, Portugal, Belgium, Spain, and France. The plans of these Member States are somewhat more optimistic, but require additional measures in order to attain the targeted effort as set by Member States in their DBP. Looking ahead, further fiscal effort may be needed in Member

[19] Long-term interest rates are derived from the 10-year swap rate deflated by inflation expectations.

[20] As mentioned in section 3, the output gap estimates of some Member States appear subject to particular uncertainty.

[21] 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 2016 (*European Economy Institutional Paper*, no. 047, January 2017). These updated results, based on the Commission 2017 Autumn forecast, will be presented in the forthcoming European Commission Debt Sustainability Monitor 2017.

[22] The Commission's S1 sustainability indicator shows the total effort required over 2020-2024 (the five years beyond the forecast horizon) so as to bring debt to 60% of GDP by 2032, taking into account contingent liabilities related to ageing. It points to an additional adjustment of 1.8% of GDP for the euro area (excluding Greece) over these five years. This translates into an additional yearly adjustment of approximately 0.4% of GDP between 2020 and 2024.

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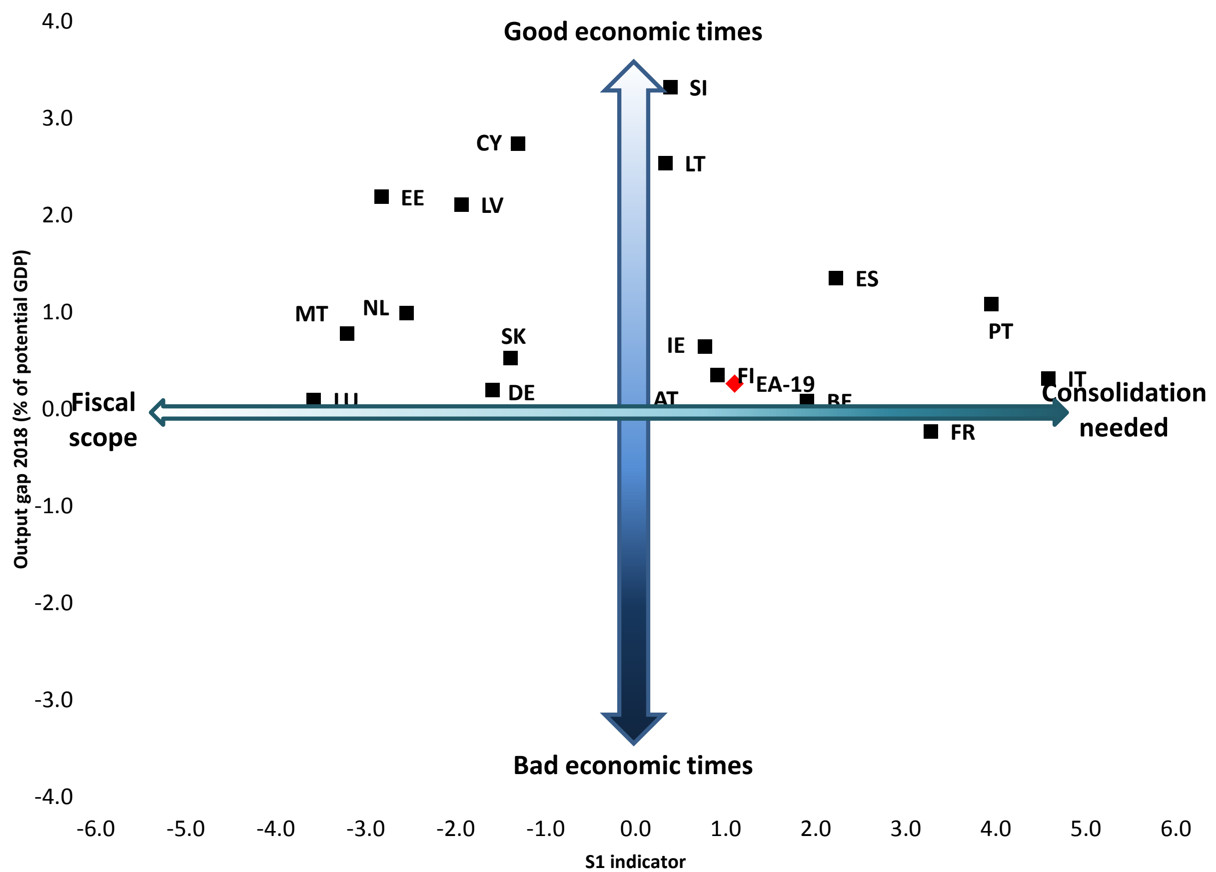
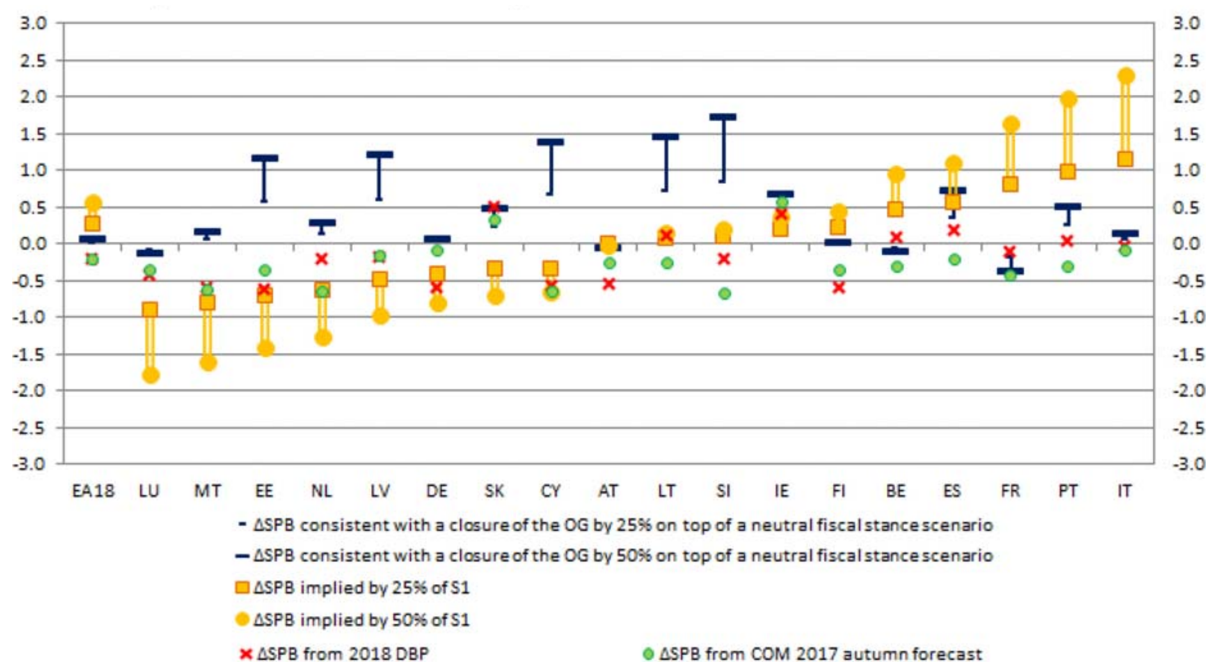
States characterised by high debt-to-GDP ratios, especially in case of persistently moderate growth prospects and rising interest rates given the current historically low levels.

Graph 2: A fiscal map for the euro area in 2018



Note: Based on European Commission 2017 autumn forecast. Good(bad) economic times are measured by the output gap in 2018, 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 2017 autumn forecast calculations and using 2017 as the base year.

Graph 3: Change in the structural primary balance in 2018 in the Draft Budgetary Plans against sustainability and stabilisation needs (% of GDP)



Source: European Commission based on Commission 2017 autumn forecast and Draft Budgetary Plans.
How to read this chart:
The sustainability criterion is based on the S1 indicator and assumes that 25 % to 50 % of the indicated change in the SPB is implemented in 2017, corresponding to more or less frontloading of the consolidation effort if S1 is positive. For countries with a negative S1, this indicates some scope for expansionary policies in response to possible stabilisation needs.
The stabilisation criterion is measured as the change in the SPB for which fiscal policy reduces by 25% (short blue bar) or 50% (long blue bar) the output gap that would result from a neutral-fiscal policy scenario in 2018, In other words, this output gap closure of 25% or 50% is achieved in addition to the spontaneous output gap closure, as projected in Commission 2017 autumn forecast (adjusted by assuming neutral fiscal stance). This assumes that fiscal policy always plays a countercyclical role, either supporting the closure of the output gap or mitigating its widening. If the neutral-fiscal-policy assumption implies that the output gap is changing sign, then the stabilisation objective caps the closure of the output gap at 100%, thus avoiding pro-cyclicality.
The red crosses show the planned changes in the SPB presented by Member States in their 2017 Draft Budgetary Plans, as recalculated by the Commission using the commonly agreed methodology for potential output. The green dots show the change in the SPB according to the Commission spring 2017 forecast, which is derived on a no-policy-change assumption.

3. Overview of the Draft Budgetary Plans

The Commission Opinions on the DBPs focus on compliance with the SGP 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 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 SGP and the fiscal country-specific recommendations contained in the Council Recommendations of 11 July 2017. [23]

All non-programme euro-area Member States submitted their DBPs in due time, in line with Article 6 of Regulation (EU) No 473/2013. In line with the provisions of the Two-Pack Code of Conduct, two countries, Austria and Germany submitted no-policy-change DBPs due to caretaker governments being in place. The incoming governments are expected to submit full DBPs once they take office. Spain submitted a no-policy-change DBP as well, although the government is not considered a caretaker. In its letter of 27 October 2017, the Commission invited Spain to submit an updated DBP as soon as possible. The Netherlands' outgoing government submitted a DBP by the deadline, and the incoming government's submitted an addendum to the DBP with complementary information on new measures. As the addendum does not include tables that meet the requirements under the Code of Conduct, the authorities should submit such updated tables without undue delay.

No DBP was found in "particularly serious non-compliance" with the SGP as referred to in Article 7(2) of Regulation (EU) No 473/2013. Nevertheless, some of the submitted plans give rise to concerns. Therefore, the Commission sent letters to Belgium, France, Italy and Portugal on 27 October 2017 asking for further information and highlighted a number of preliminary observations related to the Draft Budgetary Plan. The Member States concerned replied at the end of October. The information contained in the letters has been taken into account in the Commission's assessment of budgetary developments and risks. In the case of Italy, the debt ratio above 130% of GDP is a reason for concern. The improving macroeconomic and financial conditions create a window of opportunity to accelerate the reduction of public debt. However, more information is needed on the government's overall strategy and concrete steps planned to decisively put the debt ratio on a downward path that would ensure compliance with the debt criterion. As considerable uncertainty continues to surround the fiscal outlook in 2017, the Commission intends reassessing Italy's compliance with the debt criterion in spring 2018, based on outturn data for 2017 and the final budget to be adopted by the Parliament in December 2017.

Tables 2a and 2b summarise the assessments of individual Member States' DBPs as per the Commission's Opinions adopted on 22 November together with the assessment of progress with fiscal-structural reforms. These assessments are based on the Commission 2017 autumn forecast. In order to facilitate comparison, the assessment of the plans is summarised in three

[23] Council Recommendations of 11 July 2017 (JO 2017/C261) http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:C:2017:261:TOC

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broad categories, which have different meanings depending on whether a Member State is in EDP or not:

- **Compliant:** according to the Commission's forecast, there is **no need to adapt the budgetary plans** within the national budgetary procedure to ensure that the 2018 budget will be compliant with the SGP rules.
- **Broadly compliant:** According to the Commission's forecast for 2018, the DBP is expected to ensure broad compliance with the SGP rules.

  For Member States in EDP: while the Commission's forecast for 2018 projects that either the intermediate headline deficit target will be achieved or that the excessive deficit will be corrected in a timely manner, there is a noticeable shortfall in fiscal effort compared to the recommended level that puts at risk compliance with the EDP recommendation.

  For Member States in the preventive arm of the SGP: the Commission's forecast for 2018 projects some deviation from the MTO or the adjustment path towards it, but the shortfall relative to the requirement would not represent a significant deviation from the recommended adjustment. These Member States are assessed to comply with the debt reduction benchmark, where applicable.
- **Risk of non-compliance:** According to the Commission's forecast for 2018, the DBP is not expected to ensure compliance with the SGP rules.

  For Member States in EDP: the Commission's forecast for 2018 projects that neither the recommended fiscal effort will be delivered nor that the intermediate headline deficit target will be achieved or that the excessive deficit will be corrected in a timely manner.

  For Member States in the preventive arm of the SGP: the Commission's forecast for 2018 projects a significant deviation from the MTO or the required adjustment path towards it, and/or non-compliance with the debt reduction benchmark, where applicable.

No Member State has requested additional flexibility for 2018 in line with the "Commonly agreed position on flexibility within the Stability and Growth Pact" endorsed by the Council on 12 February 2016. To recall, in 2017 the Council has granted flexibility to Finland, Latvia and Lithuania on the basis of the structural reform clause and to Finland on the basis of the investment clause. Finland has been granted flexibility in view of the implementation of major structural reforms with a positive impact on the long-term sustainability of public finances, and of national expenditure on projects co-financed by the EU under the European Structural and Investment Funds. For Latvia, flexibility has been granted in relation to a health care reform. Lithuania benefits from flexibility in view of major structural labour market and pension reforms with a positive impact on the long-term sustainability of public finances.

A number of Member States mentioned the budgetary impact of the increased inflow of refugees and of additional security measures. The provisions of Articles 5(1) and 6(3) of Regulation (EC) No 1466/97 allow for a temporary deviation from the adjustment path towards the medium-term budgetary objective in order to cater for such additional expenditure, to the extent that the inflow of refugees as well as the severity of the threats to security are exceptional events, their impact on public finances is significant and sustainability would not be compromised. The Commission considered a possible temporary deviation for refugee-related costs in 2015 and 2016 (Belgium, Italy, Austria, Slovenia and Finland). For 2017, Austria, Italy, and Slovenia have been granted an additional allowance *ex*

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ante for the refugee-related expenditure. While refugee-related costs are also mentioned in Italy's 2018 DBP and in the reply[24] to the Commission's request for clarification on Italy's planned fiscal effort, no additional flexibility has been requested. With regards to security-related expenditure, flexibility had been granted in 2016 and 2017 to Belgium, Italy and Austria; no further flexibility was requested in the 2018 DBPs. The Commission will make a final assessment, including on the eligible amounts, on the basis of observed data to be provided in spring 2018 by the authorities. In spring 2017, the Commission provisionally assessed Italy to be eligible for an allowance in relation to the budgetary impact of a preventive investment plan for the protection of the national territory against seismic risks under the unusual event clause. This budgetary impact is confirmed in the 2018 DBP. Nevertheless, the allowance will be reassessed *ex-post* in spring 2018 on the basis of observed data as provided by the Italian authorities, in particular given implementation uncertainties regarding the investment plan.

For some Member States (Cyprus, Finland, Italy, and Slovenia), the output gaps for 2017 estimated according to the commonly-agreed methodology appear subject to particular uncertainty, as indicated by the Commission's plausibility screening tool. In such cases, in its assessment of the DBP the Commission analysed the estimates of the output gap in more detail under the constrained judgement approach, following-up on the requested improvements to the methodology from the April 2016 Amsterdam Informal ECOFIN Council. The approach taken by the Commission is unchanged from the one that was implemented in the assessment of the 2017 Draft Budgetary Plans and the 2017 Stability and Convergence Programmes. For Cyprus and Finland, although the plausibility tool provided indications of particular uncertainty, the Commission did not see sufficient ground to deviate from the estimates based on the common methodology after taking into account all relevant factors. For Italy, the constrained judgement approach would lead to the conclusion of a negative output gap, compared to the positive output gap estimated on the basis of the common methodology. For Slovenia, it was found that a more plausible estimate would bring Slovenia close to the border between good and normal economic times in 2018. For neither of these two Member States would this affect the requirements under the preventive arm. It would thus have no implication for the assessment of their DBP.

Finally, the Commission has preliminarily assessed the degree of progress with the implementation of the fiscal-structural reforms outlined in the Council Recommendations of 11 July 2017. The assessment of the DBPs is summarised in the following five broad categories: no progress, limited progress, some progress, substantial progress and fully addressed. A comprehensive assessment of progress made with the implementation of the country-specific recommendations will be made in the 2018 Country Reports and in the context of the 2018 country-specific recommendations to be adopted by the Council in 2018.

***Box 1* - The application of discretion in the autumn 2017 fiscal surveillance exercise**

In the recitals of the Council Recommendations of 11 July 2017 the Commission's intended treatment of Member States for which the matrix implies a fiscal adjustment of 0.5% of GDP or above was highlighted. The recitals state the following: “[...], the

[24] Letter by the Italian Minister of Economy and Finance from 30 October 2017, sent in reply to the Commission's letter from 27 October 2017.

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assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of [Member State]'s public finances. In that context, the Council notes that the Commission intends to carry out an overall assessment in line with Regulation (EC) No 1466/ 97, in particular in the light of the cyclical situation of [Member State]."

The Commission can exercise a degree of discretion when considering departures from the fiscal adjustments implied by the matrix. While compliance continues to be assessed with respect to the matrix-based requirement as indicated in the Recommendations, the Commission can exercise some discretion when assessing the compliance with the SGP of a Member State that is flagged by quantitative indicators as (at risk of) significantly deviating from its required adjustment. In fact, the so-called *overall assessment* might eventually conclude that a Significant Deviation Procedure is not warranted even in the event of the significant deviation threshold of 0.5% of GDP being exceeded with respect to the matrix-based requirement. The legal basis can be found from the specific terms of Article 6(3) of Council Regulation (EC) No 1466/97, whereby the overall assessment is linked to precise quantitative criteria without being limited to those criteria, which allows for other elements to be taken into account.

Discretion is conceived as a mean to tackle a specific situation in a time of atypical and incomplete economic recovery. As highlighted also in the Commission 2017 autumn forecast and in section 2 of this Communication, the current recovery is strengthening but remains atypical and incomplete. Specifically, there is persistent labour market slack, core inflation remains unusually subdued, and the large current account surplus, in excess of its fundamental level, indicates the persistence of a domestic demand shortfall. Lastly, the recovery is supported by ECB's accommodative monetary policy. This becomes even more relevant in the context of monetary policy on a gradual road towards normalisation.

A structured and holistic assessment of a comprehensive set of economic indicators allows the identification of cases where an effort below that required by the matrix could be deemed adequate. For Member States in (at risk of) a significant deviation from the matrix requirements for 2018, the overall assessment may include a methodical scrutiny of its stabilisation and sustainability needs with the ultimate goal of achieving an appropriate fiscal stance at the Member State level. This is based on a structured and systematic analysis of a comprehensive set of economic indicators that is intended to ensure predictability and equal treatment among Member States.

The analysis encompasses both an assessment of sustainability and stabilisation challenges. A thorough analysis of debt levels as well as short and medium term sustainability challenges allow determining if the Member State presents sustainability challenges or not. In parallel, stabilisation needs are assessed considering the position of the economy in the economic cycle and the possible existence of inflationary pressures. In

particular, the indication provided by the output gap from the common methodology is complemented by alternative measures of the spare capacity of the economy. In addition, indicators of inflationary pressures can also be taken into account.

The Commission concluded that a fiscal adjustment that departs from the requirement can be deemed adequate for Italy and Slovenia, provided that they effectively ensure such a fiscal adjustment in 2018. The analysis considers the following sequential arguments.

- In cases when short-term fiscal sustainability challenges are identified, no discretion is warranted. No Member State is in this situation now.
- In cases when the economic recovery of the Member State is considered sufficiently robust, no discretion is warranted either, as for Belgium, France, and Portugal.
- For Member States where the recovery appears still fragile or a too large fiscal tightening could jeopardise it, as in the cases of Italy and Slovenia, a fiscal adjustment that departs from the requirement can be deemed adequate. However, if these Member States are also facing sustainability needs in the medium-term and/or have a debt-to-GDP ratio above 60%, an important provision is that they should ensure the effective delivery of a reasonable fiscal adjustment. The latter could be roughly proxied by at least half of the requirement from the matrix. Providing such a cap responds to the need of striking the right balance between the Member State's stabilisation and sustainability needs. Nevertheless, full compliance with this fiscal adjustment is required. Effectively ensuring a minimum fiscal adjustment is essential in particular for Member States not respecting the debt reduction benchmark prima facie and therefore facing the possibility of a debt-based Excessive Deficit Procedure.

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Table 2a: Overview of individual Commission opinions on the Draft Budgetary Plans – Member States under the preventive arm of the SGP

Member States	Overall compliance of the DBP with the SGP		Progress with implementing the fiscal-structural part of the 2017 country-specific recommendations
	Overall conclusion of compliance in 2018 based on the Commission 2017 autumn forecast	Compliance with the preventive arm requirements in 2017 and 2018	
BE*	Risk of non-compliance	2017: risk of a significant deviation from the adjustment path towards the MTO based on 2016-2017 together, prima facie non-compliance with the debt reduction benchmark; 2018: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark.	Some progress
DE***	Compliant	2017: MTO overachieved; compliance with the debt reduction benchmark; 2018: MTO overachieved; compliance with the debt reduction benchmark.	Limited progress
EE	Broadly compliant	2017: No deviation from the adjustment path towards the MTO; 2018: Some deviation from the adjustment path towards the MTO.	n.a.
IE	Broadly compliant	2017: risk of a significant deviation from the adjustment path towards the MTO based on 2016-2017 together, compliance with the transitional debt rule; 2018: risk of some deviation from the adjustment path towards the MTO based on 2017 and 2018 together, compliance with the transitional debt rule.	Some progress
IT**	Risk of non-compliance	2017: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark; 2018: risk of a significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the debt reduction benchmark.	Some progress
CY	Broadly compliant	2017: risk of some deviation from the MTO; compliance with the transitional debt rule; 2018: risk of some deviation from the MTO, compliance with the transitional debt rule.	Some progress
LT	Compliant	2017: MTO overachieved; 2018: MTO overachieved.	Some progress
LV	Compliant	2017: No deviation from the adjustment path towards the MTO; 2018: No deviation from the adjustment path towards the MTO.	Some progress
LU	Compliant	2017: MTO overachieved; 2018: MTO overachieved.	Limited progress
MT	Broadly compliant	2017: MTO overachieved; 2018: risk of some deviation from the MTO.	Some progress
NL****	Compliant	2017: MTO overachieved; 2018: MTO overachieved.	Some progress
AT***	Risk of non-compliance	2017: risk of a significant deviation from the adjustment path towards the MTO based on 2016-2017 together, compliance with the debt reduction benchmark; 2018: risk of a significant deviation from the adjustment path towards the MTO based on 2017-2018 together, compliance with the debt reduction benchmark.	Some progress
PT	Risk of non-	2017: risk of a significant deviation from the	Limited progress

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	compliance	adjustment path towards the MTO, compliance with the transitional debt rule within the allowed annual deviation; 2018: risk of a significant deviation from the adjustment path towards the MTO, compliance with the transitional debt rule within the allowed annual deviation.	
SK	Broadly compliant	2017: risk of some deviation from the adjustment path towards the MTO; 2018: risk of some deviation from the adjustment path towards the MTO;	Some progress
SI	Risk of non-compliance	2017: risk of some deviation from the adjustment path towards the MTO, compliance with the transitional debt rule; 2018: risk of a significant deviation from the adjustment path towards the MTO, compliance with the transitional debt rule.	Some progress
FI*	Compliant	2017: No deviation from the adjustment path towards the MTO, compliance with the debt reduction benchmark; 2018: No deviation from the adjustment path towards the MTO, compliance with the debt reduction benchmark.	Some progress

* The Commission issued a report on 22 May 2017 in accordance with Article 126(3) of the Treaty for the Member State. The report concluded that, after the assessment of all relevant factors, the debt criterion should be considered as complied with.

** The Commission issued a report on 22 February 2017 in accordance with Article 126(3) of the Treaty in which it concluded that unless the additional structural measures, worth at least 0.2% of GDP that the government committed to adopt at the latest in April 2017 were credibly enacted by that time in order to reduce the gap to broad compliance with the preventive arm in 2017 (and thus in 2016), the debt criterion should be considered as not complied with at that stage. On 22 May 2017, the Commission concluded that the requested additional consolidation measures for 2017 had been delivered.

*** DBP submitted by a caretaker government on a no-policy-change basis.

**** The DBP submitted by the outgoing government has been updated with an addendum by the new government.

Table 2b: Overview of individual Commission opinions on the Draft Budgetary Plans – Member States under the corrective arm of the SGP

Member States	**Overall compliance of the DBP with the SGP**		**Progress with implementing the fiscal-structural part of the 2017 country-specific recommendations**
	Overall conclusion of compliance in 2018 based on the Commission 2017 autumn forecast	**Compliance with the corrective arm requirements in 2017 and 2018 (or preventive arm if applicable)**	
ES	Broadly compliant	2017: intermediate headline target met, fiscal effort not delivered; 2018 headline deficit projected below 3%, headline target and fiscal effort not delivered.	Some progress
FR*	Risk of non-compliance	2017: headline deficit projected just below 3% of GDP, headline target and fiscal effort not delivered; 2018: risk of significant deviation from the adjustment path towards the MTO, prima facie non-compliance with the transitional debt rule.	Limited progress

* France is currently under the corrective arm of the SGP, but could move to the preventive arm as from 2018 if the excessive deficit is corrected in a timely and sustainable manner.

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