EUROPEAN COMMISSION

PRESS RELEASE

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Europe's budgetary surveillance moves into full gear

The European Commission today presented a major package of budgetary surveillance announcements, covering 13 euro area Member States and 3 non-euro Member States, with a special focus also on the euro area as an economic entity in its own right. For the first time, the Commission has issued opinions on euro area Member States' Draft Budgetary Plans, which from this year must be submitted to the Commission by 15 October, at the same time as draft budgets are sent to national parliaments. Assessments have also been published regarding compliance with Council recommendations under the Excessive Deficit Procedure (EDP), potential breaches of the debt and deficit criteria under the Stability and Growth Pact (SGP), and on certain Member States' plans for structural reforms with a budgetary impact outlined in their Economic Partnership Programmes (EPP).

Olli Rehn, European Commission Vice President in charge of Economic and Monetary Affairs and the Euro, said: *"We have reached a turning point on the road to economic recovery and today we reach a milestone in the implementation of Europe's strengthened economic governance. Today's Commission opinions on national budgetary plans support the euro area Member States in their pursuit of stronger growth and fiscal sustainability. Because in an economic and monetary union, national budgetary decisions can have an impact well beyond national borders. Member States have given the Commission the responsibility to issue these opinions and I trust that they will thus be taken on board by national decision-makers."*

The package contains four elements:

1. **Opinions on Draft Budgetary Plans**

At the heart of the package are the first ever opinions on the Draft Budgetary Plans for 2014 submitted by the 13 euro area countries not under an economic adjustment programme (all except Cyprus, Greece, Ireland, and Portugal). The opinions give an early signal on whether the underlying national budgets are in line with the obligations under the SGP before they are adopted.

2. **Effective action assessments**

The Commission has assessed the action taken by seven Member States in response to the new Council recommendations adopted last June setting new deadlines for the correction of excessive deficits. The countries concerned are Belgium, Spain, France, Malta, the Netherlands, Poland and Slovenia.

3. **Assessments of Economic Partnership Programmes**

Having received a new EDP recommendation this year, Spain, France, Malta, the Netherlands and Slovenia laid out their plans for structural reforms with a budgetary impact in Economic Partnership Programmes, which the Commission has also analysed.

4. **Reports to analyse reasons for non-compliance with debt or deficit criteria**

Finally, for Croatia, Lithuania and Finland, the Commission has sent reports to the Council assessing the reasons for an actual or forecast breach of either of the key thresholds set out in the SGP.

Conclusions for the euro area

A key benefit of the assessment of the Draft Budgetary Plans is that it has facilitated an assessment also of the budgetary situation of the euro area as a whole, as set out in today's Communication. Some of the key conclusions are:

• The large consolidation efforts implemented in recent years are bearing fruit: public debt is set to stabilise and the average headline budget balance is expected to be brought below the reference value of 3% of GDP. Those countries that face the largest fiscal challenges plan to implement the strongest consolidation efforts, with some differentiation according to fiscal space. However, only two Member States (Estonia and Germany) have attained their medium-term objective, implying that further consolidation in other euro area countries is necessary. The aggregate fiscal effort, as expressed by the change in the cyclically adjusted budget balance net of one-off and temporary measures, should amount to ¼ % of GDP next year.

• Further structural reform is necessary to bolster the foundations for sustained growth and sound public finances. Overall, the Economic Partnership Programmes show progress with respect to the improvement of national fiscal frameworks; mixed results with respect to tax reform; and substantial reforms to pension and health systems, albeit not for all countries.

• The Draft Budgetary Plans still do not pay sufficient attention to the composition of fiscal consolidation. In particular, the general trend of decreasing public capital expenditure observed in the past few years, while stabilising, is not being reversed. Some focus on expenditure restraint is key in a well-designed consolidation strategy, especially where government sectors are relatively large.

Country-specific conclusions

It is reassuring that no Draft Budgetary Plan has been found to be in serious non-compliance with the obligations of the SGP and that it is not necessary to request revised budgetary plans. However, in several cases, the Commission has found reasons for substantial criticism and has called on the Member States concerned to take its opinions into account in the finalisation of the 2014 budgets. Below is an overview of the Commission's key conclusions per country:

Austria (EDP deadline 2013; Opinion on Draft Budgetary Plan)

- Austria's Draft Budgetary Plan is broadly compliant with the SGP rules.
- The Commission forecast points to a durable correction of the excessive deficit in 2013 and some deviation from the adjustment path towards the medium-term objective of a structural general government deficit of 0.45% of GDP in 2014.
- Austria has made some progress in addressing the structural part of the fiscal recommendations issued by the Council in the context of the European Semester.
- The Commission invites the authorities to ensure full compliance with the SGP within the national budgetary process.
- As soon as a new government takes office, the national authorities are encouraged to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan.

Belgium (EDP deadline 2013. Opinion on Draft Budgetary Plan, Assessment of effective action under EDP)

- Belgium appears to have taken effective action in 2013 in response to the EDP recommendation, and there appears to be a durable correction of the excessive deficit by the deadline of 2013.
- Belgium's Draft Budgetary Plan is broadly compliant with the SGP rules.
- In particular, the structural adjustment towards the medium-term objective is slightly below the required effort.
- Belgium has made limited progress in addressing the structural part of the fiscal recommendations issued by the Council under the European Semester.
- The Commission invites the authorities to ensure full compliance with the SGP within the national budgetary process.

Croatia (not in EDP; Report on breach of debt and deficit criteria)

- Croatia's deficit reached 5% of GDP in 2012, and total government debt amounted to 55.5% of GDP. According to government plans and the Commission 2013 Autumn forecast, the budget deficit is projected to stay well above the 3% reference value in the period 2013-2015, while public debt is projected to exceed 60% in 2014.
- Consequently, the Commission has carried out a report under Article 126(3) of the Treaty and has examined relevant factors. The findings of the report support the conclusion that neither the deficit nor the debt criteria of the Treaty are fulfilled.
- The Commission therefore intends to recommend to the Council the opening of an Excessive Deficit Procedure for Croatia.

Estonia (not in EDP; Opinion on Draft Budgetary Plan)

- The Draft Budgetary Plan of Estonia is compliant with the SGP rules.
- In particular, the medium-term objective of a structural surplus is expected to be maintained in 2014.
- Estonia has made some progress in addressing the structural part of the fiscal recommendations issued by the Council in the context of the European Semester.

Finland (not in EDP; Opinion on Draft Budgetary Plan, Report on breach of debt criterion)

- Finland's Draft Budgetary Plan is at risk of non-compliance with the SGP rules.
- In particular, the Commission identifies a significant deviation from the adjustment path towards the medium-term objective of a structural general government deficit of 0.5% of GDP.
- According to the Commission forecast, Finland's debt will breach the 60%-of-GDP Treaty threshold in 2014 and is expected to rise further. The Commission has investigated this breach in a report under Article 126(3) and has come to the conclusion that, due to low growth and other factors, the forecast debt position does not merit the launch of an EDP.
- Finland has made some progress in addressing the structural part of the fiscal recommendations issued by the Council in the context of the European Semester.
- The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2014 budget will be fully compliant with the SGP and notably to address the risks identified in the assessment.

France (EDP deadline 2015; Opinion on Draft Budgetary Plan, Assessment of effective action, Opinion on Economic Partnership Programme)

- France appears to have taken effective action in 2013 in response to the EDP recommendation.
- The Draft Budgetary Plan is compliant with the SGP rules, albeit with no margin. In particular, effective action appears to have been taken also in 2014.
- The Economic Partnership Programme submitted constitutes limited progress in addressing the structural part of the fiscal recommendations issued by the Council in the context of the European Semester.
- The Commission invites the authorities to rigorously implement the budget.

Germany (not in EDP; Opinion on Draft Budgetary Plan)

- The Draft Budgetary Plan of Germany is compliant with the SGP rules.
- In particular, Germany respects its medium-term objective.
- However, Germany has made no progress in addressing the structural part of the fiscal recommendations issued by the Council in the context of the 2013 European Semester.
- As soon as a new federal government takes office, national authorities are invited to submit an updated Draft Budgetary Plan.

Italy (not in EDP; Opinion on Draft Budgetary Plan)

- There is a risk that the Draft Budgetary Plan for 2014 will not be compliant with the SGP rules. In particular, the debt reduction benchmark in 2014 is not respected.
- The Draft Budgetary Plan demonstrates limited progress with regard to the structural part of the fiscal recommendations issued by the Council in the context of the European Semester.
- The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2014 budget will be fully compliant with the SGP and notably to address the risks identified in the assessment.
- The Commission has concluded that Italy cannot take advantage of the investment clause in 2014 since, based on the Commission 2013 autumn forecast, it would not make the minimum structural adjustment required to bring its debt-to-GDP ratio on a sufficiently declining path.

Lithuania (not in EDP; Report on breach of deficit criterion)

- The general government deficit in Lithuania reached 3.2% of GDP in 2012, above but close to the 3% of GDP reference value. Government debt for 2013 is forecast at 39.9% and is set to rise slightly in 2014, before declining in 2015.
- Since the excess over the reference value can be considered temporary and Lithuania's debt-to-GDP ratio is below the 60% of GDP reference value in a sustained manner, the direct net cost of the pension reform should be taken into account when assessing the correction of the excessive deficit. As these costs have been 0.2% of GDP in 2012, they explain the excess over the 3 % of GDP Treaty reference value in 2012.
- In a report carried out under Article 126(3) of the Treaty, the Commission has thus found that Lithuania complies with the deficit and debt criteria of the Treaty and as such it is not necessary to recommend the opening of an Excessive Deficit Procedure.

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Luxembourg (not in EDP; Opinion on Draft Budgetary Plan)

- According to the Commission assessment, the general government balance in structural terms is projected to deteriorate from a surplus of 0.8% of GDP in 2012 to a deficit of 0.4% of GDP in 2014, thus deviating significantly from Luxembourg's medium-term objective of a surplus of 0.5% of GDP. Therefore, there is a risk of non-compliance with the requirements of the preventive arm of the SGP.
- Luxembourg has made some progress as regards the structural part of the fiscal recommendations issued by the Council in the context of the European Semester.
- The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2014 budget will be fully compliant with the SGP and notably to address the risks identified in the assessment.
- As soon as a new government takes office, national authorities are invited to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan.

Malta (EDP deadline 2014; Opinion on Draft Budgetary Plan, Assessment of effective action, Opinion on Economic Partnership Programme)

- Malta appears to have taken effective action in 2013 in response to the EDP recommendation.
- The Draft Budgetary Plan for 2014 submitted by Malta is at risk of non-compliance with the SGP rules. In particular, the Commission forecast indicates a risk of non-compliance with respect to the EDP recommendation for 2014.
- The Economic Partnership Programme constitutes limited progress in addressing the structural part of the fiscal recommendations issued by the Council in the context of the European Semester.
- The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2014 budget will be fully compliant with the SGP and notably to address the risks identified in the assessment.

The Netherlands (EDP deadline 2014; Opinion on Draft Budgetary Plan, Assessment of effective action, Opinion on Economic Partnership Programme)

- The Netherlands appears to have taken effective in response to the EDP recommendation.
- The Draft Budgetary Plan of the Netherlands for 2014 is compliant with the SGP rules, albeit with no margin.
- In particular, the measures for 2014 are consistent with what the Council requires, even though, based on the Commission Autumn Economic Forecast, the excessive deficit situation is not expected to end by that year.
- The Economic Partnership Programme submitted by the Netherlands constitutes some progress in addressing the structural part of the fiscal recommendations issued by the Council in the context of the European Semester.
- The Commission invites the authorities to rigorously implement the budget.

Poland (EDP deadline 2014; Report on effective action and new recommendation)

- Poland has not taken effective action in 2013 in response to the Council recommendation. Poland is set to miss the general government deficit target for 2013 recommended by the Council and has also not adopted the required amount of consolidation measures. While in 2014 the headline target is likely to be met, this is due to a large extent to a one-off transfer of pension funds' assets, which does not guarantee a sustainable correction in the following years.

- In light of this assessment, the Commission has adopted a recommendation for a Council decision on effective action taken (Article 126.8 of the TFEU) and is recommending to the Council to step up the procedure with a new recommendation for Poland to correct the excessive deficit by 2015 at the latest (Article 126.7 of the TFEU).

Slovakia (EDP deadline 2013; Opinion on Draft Budgetary Plan)

- The Draft Budgetary Plan is broadly compliant with the SGP rules. In particular, while Slovakia is expected to respect to 3% of GDP reference value, there are concerns about whether the excessive deficit is corrected in a durable manner.
- Moreover, although Slovakia limits the growth of expenditure in line with requirements, some deviation from the adjustment path towards the medium-term objective of a structural general government deficit of 0.5% of GDP is expected.
- Slovakia has made limited progress in addressing the structural part of the fiscal recommendations issued in the context of the European Semester.
- Slovakia cannot be considered at this stage eligible to benefit from the investment clause, as it is still subject to the EDP.
- The Commission invites the authorities to ensure full compliance with the SGP within the national budgetary process.

Slovenia (EDP deadline 2015; Opinion on Draft Budgetary Plan, Assessment of effective action, Opinion on Economic Partnership Programme)

- Slovenia appears to have taken effective action in 2013 in response to the EDP recommendation.
- Slovenia's Draft Budgetary Plan is compliant with the SGP rules, albeit with no margin.
- In particular, Slovenia is forecast to deliver the recommended fiscal effort in 2014.
- The Economic Partnership Programme constitutes limited progress in addressing the structural part of the fiscal recommendations issued by the Council in the context of the European Semester.
- The Commission invites the authorities to rigorously implement the budget.

Spain (EDP deadline 2016; Opinion on Draft Budgetary Plan, Assessment of effective action, Opinion on Economic Partnership Programme)

- Spain appears to have taken effective action in 2013 in response to the EDP recommendation.
- For 2014, the Draft Budgetary Plan is at risk of non-compliance with the SGP rules, as the headline deficit target may be missed and the recommended improvement in the structural balance is currently not expected to be delivered.
- The Economic Partnership Programme confirms the reform agenda and timetable for fiscal and other structural reforms included in the 2013 National Reform Programme and the Stability Programme. Some progress has been made in addressing the structural part of the fiscal recommendations issued by the Council in the context of the European Semester.
- The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2014 budget will be fully compliant with the SGP and notably to address the risks identified in the assessment.

Next steps

The opinions on the Draft Budgetary Plans will be presented to the Eurogroup, which meets on 22 November to discuss them. The Commission will also present its opinion to the parliament of the Member State concerned and/or to the European Parliament if invited to do so.

In line with the new common budgetary timeline introduced by the Two-Pack, budgets have to be adopted by national parliaments by 31 December each year.

The Commission continues with its surveillance of budgetary developments in all Member States throughout the year.

The proposal for EDP Recommendations will be presented to the ECOFIN Council for discussion on 10 December.

The same ECOFIN Council will also discuss the Commission proposals for Council opinions on the Economic Partnership Programmes.

For further information:

IP/13/1082

MEMO/13/457

MEMO/13/463

For Draft Budgetary Plans:
http://ec.europa.eu/economy_finance/economic_governance/sgp/budgetary_plans/index_en.htm

For an overview of the EDPs:
http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm

ECFIN page on Stability and Growth Pact

http://ec.europa.eu/economy_finance/economic_governance/sgp/index_en.htm

Vade Mecum on the Stability and Growth Pact

http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/op151_en.htm

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

http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/130701_-_two_pack_coc_final_endorsed.pdf

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