EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

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# Assessment of the 2020 Stability Programme for

# Luxembourg

***(Note prepared by DG ECFIN staff)***

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## EXECUTIVE SUMMARY

- On 6 April 2020, the Commission provided guidelines to Economic and Financial Committee on how the format and content of the 2020 Stability and Convergence Programmes can be streamlined in light of the exceptional circumstances related to the Covid-19 pandemic. This assessment takes into account the severe constraints that Member States faced in providing the information usually required in their Programmes. The assessment focuses on the near term in light of the high uncertainty attached to the projections.

- The Stability Programme projects real GDP to fall by 6% in 2020 before growing by 7% in 2021. By comparison, the Commission 2020 spring forecast projects real GDP to fall by 5.4% in 2020 followed by an increase of 5.7% in 2021.

- The Stability Programme projects the general government balance to turn into a deficit of 8.5% of GDP in 2020 and 3% of GDP in 2021. By comparison, the Commission 2020 spring forecast projects the general government balance to turn to a deficit of 4.8% of GDP in 2020 before improving to a surplus of 0.1% of GDP in 2021. The differences in the underlying macro-economic scenarios, more conservative assumptions in the Stability Programme for both revenues and expenditures as well as for the impact of COVID-19 measures explain most of the gap between the two forecasts.

- The Stability Programme estimates the direct budgetary impact of COVID-19 related measures at 5.5% of GDP in 2020. The measures include strengthening the health care services, support for distressed firms, and short-time work arrangements. Measures for refundable loans and a part of tax deferrals on direct taxes are also included. In addition, Luxembourg has announced measures that, while not having an immediate direct budgetary impact, will contribute to support liquidity to businesses. The size of the overall package has been estimated at 17.5% of GDP. In contrast with the 2020 Stability Programme, the Commission estimates a smaller direct budgetary impact of the package, as it does not include tax deferrals and the granting of refundable loans as discretionary measures with a direct budgetary impact. Moreover, a share of the cost related to the short time working schemes has been considered as part of the functioning of the automatic stabilisers.

- The macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic.

## 1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2020 Stability Programme of Luxembourg covering the period 2020-2021 (hereafter called the Programme), which was submitted on 30 April 2020 for streamlined SCPs[1]. The note also assesses Luxembourg's compliance with the preventive arm of the Stability and Growth Pact in 2019. The government approved the Programme on 29 April 2020 and it was submitted to the Parliament on 29 April 2020.

Luxembourg is currently subject to the preventive arm of the Stability and Growth Pact (SGP).

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit the activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

## 2. MACROECONOMIC DEVELOPMENTS

The macro economic outlook for 2020 and 2021 has completely changed due to the COVID-19 outbreak. Luxembourg implemented a state of emergency and a lock down on 18 March 2020. A gradual de-confinement strategy started on 20 April 2020. The Programme underlines the unusually high level of uncertainty surrounding the macroeconomic scenario, which as a baseline forecasts a severe recession (-6%) in 2020 followed by a strong recovery (7%) in 2021. The scenario underlying the budgetary projections of the Programme assumes a confinement phase from 23 March to 17 April 2020, followed by a gradual lifting of restrictions until July 2020. Private consumption growth is projected to decline from 2.8% in 2019 to -1.6% in 2020. Gross fixed capital formation is forecast to slow down slightly from 4.0% to 2.7% in 2020, supported by government investment and measures to support private investment in the current crisis. Exports are forecast to decline by -7.6% and imports

[1] The Stability Programme contains only short-term budgetary projections, in line with the guidelines for a streamlined format of the 2020 Stability and Convergence Programmes in light of the COVID-19 outbreak, provided by the Commission services on 6 April 2020.

from by -4.9% in 2020. The negative contribution to real GDP growth in 2020 comes from net exports (-6.8%). Employment growth is expected to decline, but remain positive in both 2020 and 2021. However, unemployment is expected to increase from 5.5% in 2019 to 6.7% in 2020 and 7.3% in 2021. Headline inflation is expected to fall by 0.5% in 2020 and increase by 1.9% in 2021.

The Commission spring 2020 forecast (hereafter Commission forecast) is broadly in line with the Programme's change in real GDP; with a smaller decline of -5.4% in 2020 but also a lower rebound of 5.7% in 2021. However, the composition of the change in GDP is different; a stronger decline in private consumption (-4.1%), gross fixed capital formation (-12.0%) and net exports in 2020. The increase in government expenditure only partly compensates the decline in domestic demand. The contribution to the fall in GDP in the Commission forecast is divided between domestic demand (-2.2%) and net exports (-3.2%). For 2021, the Commission forecast expects a stronger recovery in employment growth and a lower level of unemployment (6.1%) due to the economic rebound. Headline inflation is expected to increase by 0.7% in 2020 and 1.6% in 2021.

## Table 1: Comparison of macroeconomic developments and forecasts

| | 2019 | | 2020 | | 2021 | | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|
| | COM | SP | COM | SP | COM | SP | SP | SP |
| Real GDP (% change) | 2.3 | 2.3 | -5.4 | -6.0 | 5.7 | 7.0 | n.a. | n.a. |
| Private consumption (% change) | 2.8 | 2.8 | -4.1 | -1.6 | 4.6 | 3.2 | n.a. | n.a. |
| Gross fixed capital formation (% change) | 3.9 | 4.0 | -12.0 | 2.7 | 8.5 | 0.7 | n.a. | n.a. |
| Exports of goods and services (% change) | 0.8 | 0.8 | -11.5 | -7.6 | 8.4 | 11.9 | n.a. | n.a. |
| Imports of goods and services (% change) | 0.9 | 0.9 | -12.0 | -4.9 | 8.8 | 10.4 | n.a. | n.a. |
| *Contributions to real GDP growth:* | | | | | | | | |
| - Final domestic demand | 2.3 | 2.4 | -2.2 | 0.7 | 3.5 | 1.5 | n.a. | n.a. |
| - Change in inventories | -0.2 | -0.2 | 0.0 | 0.1 | 0.0 | 0.0 | n.a. | n.a. |
| - Net exports | 0.2 | 0.2 | -3.2 | -6.8 | 2.2 | 5.5 | n.a. | n.a. |
| Output gap[1] | 2.2 | 2.3 | -4.8 | -5.5 | -1.3 | -0.7 | n.a. | n.a. |
| Employment (% change) | 3.6 | 3.6 | 0.9 | 0.7 | 3.1 | 1.0 | n.a. | n.a. |
| Unemployment rate (%) | 5.6 | 5.6 | 6.4 | 6.7 | 6.1 | 7.3 | n.a. | n.a. |
| Labour productivity (% change) | -1.3 | n.a. | -6.2 | n.a. | 2.6 | n.a. | n.a. | n.a. |
| HICP inflation (%) | 1.6 | 1.7 | 0.7 | -0.5 | 1.6 | 1.9 | n.a. | n.a. |
| GDP deflator (% change) | 3.4 | 3.4 | 0.4 | -0.6 | 2.8 | 2.2 | n.a. | n.a. |
| Comp. of employees (per head, % change) | 1.7 | n.a. | 1.8 | n.a. | 2.4 | n.a. | n.a. | n.a. |
| Net lending/borrowing vis-à-vis the rest of the world (% of GDP) | 4.0 | n.a. | 4.1 | n.a. | 4.1 | n.a. | n.a. | n.a. |

Note:

[1]In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

*Source* :

*Commission 2020 spring forecast (COM); Stability Programme (SP).*

The Programme scenario presents a large decline in economic activity in the sectors most hit by the restrictions. However, due to the larger share in GDP of financial services and lower share of manufacturing, the total decline in economic activity in Luxembourg is expected to be lower than in neighbouring countries.

As a small open economy with a large financial sector, the main risks to the forecast for Luxembourg stem from the development of the COVID-19 crisis and its impact on the financial and external sectors.

The macro economic scenario underpinning the Stability Programme was independently designed by the National Institute of Statistics and Economic Studies (STATEC).

## 3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

### 3.1. DEFICIT AND DEBT DEVELOPMENTS AND MEDIUM-TERM STRATEGY AND TARGETS[2]

In 2019 the general government balance recorded a surplus of 2.2% of GDP. Total revenues increased by 4.4% year-on-year. In particular, the increase in taxes on income and wealth was limited at 3.7% in 2019 after increasing on average by 10.7% per year over the last 4 years. Total expenditure increased by 6.6% year-on-year. Public employees compensation increased by 7.4%, driven by a significant increase in employment. Public investment increased by 14.6%, to reach 4.3% of GDP. Compared to the 2019 Stability Programme when a surplus of 1.0% of GDP was expected, the headline balance has been revised substantially upwards, in line with developments in previous years. This can mostly be explained by total expenditure that came out 1.3 percentage points of GDP lower than planned.

In 2020, the Programme projects the headline balance to turn into a deficit of 8.5% of GDP. This reflects the impact on economic activity of the confinement measures to halt the spread of the COVID-19, the budgetary impact of the large array of support measures and the functioning of the automatic stabilisers. Those measures are estimated by the government at 5.5% of GDP, promptly adopted to mitigate the social and economic impact of the crisis.

Total revenues are expected to drop by 0.8 percentage points to 44.1% of GDP. A significant drop is expected in both revenues from indirect and direct taxation. By contrast, social contributions are expected to increase as a share of GDP, mostly due to a denominator effect as nominal GDP is projected to plummet by 6.6%. Expenditure is forecast to increase sharply to 52.6% of GDP in 2020, an increase of 9.9 percentage points of GDP. A large increase is projected in social benefits due to the measures to protect employment and households' disposable income. Beyond social benefits, government efforts to combat the impact of the pandemic are forecast to impact capital transfers. The programme does not consider measures linked to the COVID-19 package as one-offs. In the Commission forecast a deficit of 4.8% of GDP is forecast. Beyond differences in the underlying macro-economic scenarios, a

[2] In light of the activation of the general escape clause, the measures taken in response to the coronavirus outbreak in 2020 are not treated as one-off and are thus not excluded from the estimation of the structural budget balance.

smaller estimate in the Commission forecast for the direct budgetary impact of the package broadly explains the differences between the two forecasts. Moreover, in the Stability Programme more prudent assumptions than usual for both revenues and expenditures have been used. In particular, lower than usual elasticities have been used for the estimation of revenues.

Under a no-policy change assumption scenario and in line with the improvement in the economic situation and the unwinding of the previous year’s COVID-19 related fiscal measures, the general government balance is projected to improve to a deficit of 3% of GDP in 2021. An improvement of a similar magnitude is projected in the Commission forecast.

According to the Programme, public debt is expected to increase to 28.7% of GDP in 2020 as the government will have to resort to new debt issuance to finance the deficit. The debt is projected to further increase in 2021 to 29.6% of GDP, still below the threshold of 30% of GDP set in the current government programme.

## Table 2: General government budgetary position

| (% of GDP) | 2019 | 2020 | | 2021 | | 2022 | 2023 | Change: 2019-2023 |
|---|---|---|---|---|---|---|---|---|
| | COM | COM | SP | COM | SP | SP | SP | SP |
| **Revenue** | **44.8** | **45.4** | **44.1** | **46.3** | **43.5** | **n.a.** | **n.a.** | **n.a.** |
| *of which:* | | | | | | | | |
| - Taxes on production and imports | 11.6 | 11.1 | 11.0 | 11.5 | 11.1 | n.a. | n.a. | **n.a.** |
| - Current taxes on income, wealth, etc. | 16.5 | 16.8 | 15.0 | 17.7 | 15.2 | n.a. | n.a. | **n.a.** |
| - Social contributions | 12.1 | 13.2 | 13.1 | 12.8 | 12.3 | n.a. | n.a. | **n.a.** |
| - Other (residual) | 4.5 | 4.4 | 5.0 | 4.3 | 4.9 | n.a. | n.a. | **n.a.** |
| **Expenditure** | **42.6** | **50.2** | **52.6** | **46.2** | **46.5** | **n.a.** | **n.a.** | **n.a.** |
| *of which:* | | | | | | | | |
| - Primary expenditure | 42.4 | 49.9 | 52.4 | 46.0 | 46.4 | n.a. | n.a. | **n.a.** |
| *of which:* | | | | | | | | |
| Compensation of employees+Intermediate consumption | 14.2 | 16.1 | 16.4 | 15.6 | 15.6 | n.a. | n.a. | **n.a.** |
| Compensation of employees | 10.1 | 11.2 | 11.6 | 10.8 | 11.1 | n.a. | n.a. | **n.a.** |
| Intermediate consumption | 4.2 | 4.8 | 4.8 | 4.7 | 4.5 | n.a. | n.a. | **n.a.** |
| Social payments | 18.2 | 22.5 | 22.7 | 19.6 | 19.7 | n.a. | n.a. | **n.a.** |
| Subsidies | 1.1 | 1.3 | 1.3 | 1.3 | 1.2 | n.a. | n.a. | **n.a.** |
| Gross fixed capital formation | 4.3 | 5.1 | 5.5 | 4.6 | 4.7 | n.a. | n.a. | **n.a.** |
| Other (residual) | 4.5 | 5.0 | 6.5 | 4.9 | 5.1 | n.a. | n.a. | **n.a.** |
| - Interest expenditure | 0.3 | 0.3 | 0.2 | 0.2 | 0.1 | n.a. | n.a. | **n.a.** |
| **General government balance (GGB)** | **2.2** | **-4.8** | **-8.5** | **0.1** | **-3.0** | **n.a.** | **n.a.** | **n.a.** |
| **Primary balance** | **2.4** | **-4.5** | **-8.2** | **0.3** | **-2.9** | **n.a.** | **n.a.** | **n.a.** |
| One-off and other temporary measures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | n.a. | n.a. | **n.a.** |
| **GGB excl. one-offs** | **2.2** | **-4.8** | **-8.5** | **0.1** | **-3.0** | **n.a.** | **n.a.** | **n.a.** |
| Output gap[1] | 2.2 | -4.8 | -5.5 | -1.3 | -0.7 | n.a. | n.a. | **n.a.** |
| Cyclically-adjusted balance[1] | 1.2 | -2.6 | -6.1 | 0.7 | -2.7 | n.a. | n.a. | **n.a.** |
| **Structural balance[2]** | **1.2** | **-2.6** | **-6.1** | **0.7** | **-2.7** | **n.a.** | **n.a.** | **n.a.** |
| Structural primary balance[2] | 1.4 | -2.3 | -5.9 | 0.9 | -2.6 | n.a. | n.a. | **n.a.** |
| **Gross debt ratio** | **22.1** | **26.4** | **28.7** | **25.7** | **29.6** | **n.a.** | **n.a.** | **n.a.** |

Notes*:*

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

*Source* :

*Stability Programme (SP); Commission 2020 spring forecasts (COM); Commission calculations.*

## 3.2. MEASURES UNDERPINNING THE PROGRAMME

Since the state of emergency was declared in Luxembourg on 18 March, a number of economic and social measures have been put in place to support the private sector. The Stability plan adopted on 25 March, and subsequently amended with additional measures, pursues the following economic objectives: (i) meeting short-term liquidity needs by helping people and firms to cope with cash-flow difficulties; (ii) facilitating corporate lending through State-backed guarantees; and (iii) securing job retention.

**Table 3: Discretionary measures adopted/announced in response to COVID-19 outbreak**

| **List of measures** | **Description** | **ESA Code (Expenditure / Revenue component)** | **Adoption Status** | **Budgetary impact** (% of GDP - change from previous year) | | |
|---|---|---|---|---|---|---|
| | | | | | **2020** | **2021** |
| **1** | Purchase of medical supplies | P.5 | Adopted | | 0.3 | |
| **2** | Other expenditure | P.2 | Adopted | | 0.1 | |
| **3** | Capital transfers to firms | D.9 | Adopted | | 0.7 | |
| **4** | Capital transfers to micro-firms and self employed | D.9 | Adopted | | 0.4 | |
| **5** | Short-term unemployment | D.62 | Adopted | | 1.7 | |
| **6** | Special leave for family reasons | D.62 | Adopted | | 0.4 | |
| **7** | Sickness related aids | D.62 | Adopted | | 0.2 | |
| **8** | Other | | Adopted | | 0.1 | |
| | | | | **Total** | **3.8** | |
| | | | **Tax deferrals** | | | |
| **9** | Postponement of early advances for taxes on income and wealth | D.5 | Adopted | | 2.1 | |
| **10** | Easing of administrative obligations related to indirect taxes | D.2 | Adopted | | 0.5 | |
| **11** | Postponement of social contributions | D.61 | Adopted | | 5.1 | |
| | | | | **Total** | **7.7** | |

Source: Stability Programme

The Programme assumes the direct budgetary impact of COVID-19 related measures amounting to 5.5% of GDP. The measures include strengthening health care services, support for distressed firms, refundable loans and short-time work arrangements, including for self-employed and cross-border workers adds up to 3.8%. In addition, Luxembourg has announced measures that, while not having an immediate direct budgetary impact, will contribute to support liquidity to businesses. These measures include tax deferrals (7.7%), loans to SMEs in temporary financial difficulties and guarantees (6.1%) bringing the overall amount of the package at 17.5% of GDP. The authorities consider nevertheless that a part of the tax deferrals on direct taxes would finally have a budgetary impact in 2020, which explain the difference between the 3.8% and the above-mentioned amount of 5.5% of GDP.

Information on the measures set out in the Programme was available in time and was sufficiently detailed to be included in the Commission forecast. However the Commission forecast estimates the impact of the discretionary direct expenditure measures taken in response to the COVID-19 pandemic to amount to only 1.4% of GDP. In contrast with the 2020 Stability Programme, the Commission does not consider tax deferrals on direct taxes and the granting of refundable loans as discretionary measures with a direct budgetary impact. Moreover, a share of 50% of the cost related to the short time working schemes has been considered as part of the functioning of the automatic stabilisers. In addition, in the Stability Programme more prudent assumptions than usual for both revenues and expenditures have been used.

Overall, the measures taken by Luxembourg are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak. [3] The measures appear well targeted and timely as they contribute to mitigate the social and economic impact of the COVID-19 crisis. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term. They are expected to unfold fully in 2020 with their budgetary impact to fade away in 2021. Nevertheless, in the Stability Programme the measures are expected to still have a residual budgetary impact in 2021 estimated at 0.7% of GDP.

**Table 4: Guarantees adopted/announced in response to COVID-19 outbreak**

| List of measures | Description | Adoption Status | Maximum amount of contingent liability* (% of GDP) | |
|---|---|---|---|---|
| **1** | Guarantee on new loans | Adopted | | 4.2 |
| **2** | SNCI loans | | | 0.7 |
| **3** | Guarantee provided by SNCI to SMEs | On-going | | 0.3 |
| **4** | Professional chambers guarantees in favour of SMEs | Planned | | n.a. |
| **5** | Support to exporting firms | On-going | | 0.8 |
| **6** | BEI – Luxembourg contribution | | | n.a. |
| **7** | SURE – Luxembourg contribution | | | n.a. |
| | | | **Total** | **6.1** |

Source: Stability Programme

## 3.3. Risk assessment

The macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic. The pandemic could become more severe and last longer than assumed, requiring more stringent and longer lasting containment measures. This would result in worse economic and fiscal outcomes. It could also require further fiscal policy measures. That would result in worse fiscal outcomes but

[3] https://ec.europa.eu/info/sites/info/files/communication-coordinated-economic-response-covid19-march-2020_en.pdf

help to mitigate the economic impact. An additional risk stems from the considerable size of public guarantees issued in response to the crisis.

In this regard, the Stability Programme also provides an additional more negative scenario. Under this scenario, characterised by a prolonged confinement and a severe global depression, GDP growth rate for Luxembourg would plummet by 12.4% in 2020, the employment growth rate would fall by 1.3% in 2020 and by 2.1% in 2021, with the unemployment rate approaching 10% in 2021.

## 4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

### 4.1. COMPLIANCE WITH THE DEFICIT CRITERION

According to the Stability Programme, Luxembourg's general government deficit is expected to reach 8.5% of GDP in 2020, thereby exceeding the Treaty reference value of 3% of GDP. This provides *prima facie* evidence of the existence of an excessive deficit in Luxembourg for the purposes of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3) TFEU, which analyses Luxembourg's compliance with the deficit criterion of the Treaty. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

### 4.2. COMPLIANCE WITH THE MTO OR THE REQUIRED ADJUSTMENT PATH TOWARDS THE MTO IN 2019[4]

Luxembourg is subject to the preventive arm of the Stability and Growth Pact. In 2019, the Council did not address an SGP-related country-specific recommendation to Luxembourg in the context of fiscal compliance under the European Semester since the Council was of the opinion that Luxembourg complied with the Stability and Growth Pact.

Based on the outturn data and the Commission forecast, the ex-post assessment suggests that indeed, in 2019, Luxembourg overachieved its MTO (0.5% of GDP) with a structural balance surplus of 1.2% of GDP.

[4] The possible retroactive impact on output gap estimates as a result of the recession induced by the COVID-19 outbreak and the possibility of abnormal responses of government revenues to major swings in economic activity underline that compared to the structural balance the expenditure benchmark is likely to provide a more reliable and predictable indicator in times of severe economic downturn..

## Table 5: Compliance with the requirements under the preventive arm

| | (% of GDP) | 2019 | 2020 | | 2021 | |
|---|---|---|---|---|---|---|
| | **Background budgetary indicators**[1] | | | | | |
| (1) | Medium-term objective (MTO) | -0.5 | 0.5 | | 0.5 | |
| (2) | Structural balance[2] (COM) | 1.2 | -2.6 | | 0.7 | |
| | ***Setting the required adjustment to the MTO*** | | | | | |
| (3) | Structural balance based on freezing (COM) | 1.6 | | | | |
| (4) = (1) - (3) | Position vis-a -vis the MTO[3] | At or above the MTO | | | | |
| (5) | Required adjustment[4] | 0.0 | | | | |
| (6) | Required adjustment corrected[5] | -2.9 | | | | |
| (8) | Corresponding expenditure benchmark[6] | 11.1 | | | | |
| | ***Compliance with the required adjustment to the MTO*** | | | | | |
| | | **COM** | **COM** | **SP** | **COM** | **SP** |
| | *Structural balance pillar* | | | | | |
| (8) = Δ (2) | Change in structural balance[7] | Compliance | | | | |
| (9) = (8) - (6) | *One-year deviation from the required adjustment*[8] | | | | | |
| | *Two-year average deviation from the required adjustment*[8] | | | | | |
| | *Expenditure benchmark pillar* | | | | | |
| (10) | Net public expenditure annual growth corrected for one-offs[9] | | | | | |
| (11) = (10) - (8) | One-year deviation adjusted for one-offs[10] | | | | | |
| | Two-year deviation adjusted for one-offs[10] | | | | | |
| | ***Finding of the overall assessment*** | | | | | |

***Legend***

'*Compliance*' - the recommended structural adjustment or a higher adjustment is being observed.

'*Some deviation*' - a deviation from the recommended structural adjustment is being observed, but it is below the threshold for a significant deviation.

'*Significant deviation*' - a deviation which has reached or breached the threshold for a significant deviation (i.e. 0.5% of GDP over one year, 0.25% of GDP over two years on average).

***Notes***

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[7] Change in the structural balance compared to year t-1. Ex post assessment (for 2019) is carried out on the basis of Commission 2020 spring forecast.

[8] The difference of the change in the structural balance and the corrected required adjustment.

[9] Net public expenditure annual growth (in %) corrected for discretionary revenue measures, revenue measures mandated by law and one-offs (nominal)

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

[11] Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (S/CP) budgetary projections for the previous years are achieved.

[12] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[13] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[14] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

*Source* :

*Stability Programme (SP); Commission 2020 spring forecast (COM); Commission calculations.*