Box 6

THE REVIEW OF DRAFT BUDGETARY PLANS FOR 2015

On 28 November the European Commission released its opinions on euro area non-programme countries' draft budgetary plans for 2015. The opinions entail an assessment of the extent to which governments' plans, as outlined in the draft budgetary plans, meet the requirements of the Stability and Growth Pact (SGP) and follow up on the guidance the European Council provided in its country-specific recommendations that were adopted on 8 July.[1]

In its opinions on the draft budgetary plans, of the 16 countries that participated in the review exercise the Commission assesses the plans of five countries to be "compliant" with the provisions of the SGP (i.e. those of Germany, Ireland, Luxembourg, the Netherlands and Slovakia). By contrast, it regards four countries' draft budgets as only "broadly compliant" (i.e. Estonia, Latvia, Slovenia and Finland), while the budget plans of seven countries run, in the opinion of the Commission, a "risk of non-compliance" with the SGP. The latter group comprises Spain, France, Malta and Portugal, which are still subject to excessive deficit procedures, as well as Italy, Belgium and Austria, which exited excessive deficit procedures in 2012 (Italy) and 2013

1 See also the box entitled "Country-specific recommendations for fiscal policies under the 2014 European Semester" in the September 2014 issue of the Monthly Bulletin. The country-specific recommendations for fiscal policies under the 2014 European Semester call on nine of the 16 euro area countries to reinforce their budgetary strategies in 2014. Specifically, these countries have been requested to take additional measures to address the risk of non-compliance with the SGP.

(Belgium and Austria). The Commission calls on those 11 countries whose plans are not fully compliant to take the necessary measures to ensure that their budgets will comply with the SGP.

The Commission's opinions thus reflect the expectation that the structural effort in 2015 is likely to fall short of commitments under the SGP in many euro area countries. On the one hand, this stems from a lack of progress towards countries' medium-term budgetary objectives under the preventive arm of the Pact. On the other hand, it relates to insufficient structural efforts under its corrective arm, the excessive deficit procedure. Notably, based on the Commission's 2014 autumn forecast, under the preventive arm countries will only slightly tighten, by 0.2 percentage point of GDP,[2] their fiscal stance in progressing towards their medium-term objectives, while countries subject to an excessive deficit procedure do not, on average, make any progress with structural consolidation, despite the relatively stronger effort needed to achieve sustainable fiscal positions. Finally, countries in full compliance with the SGP that partly over-achieve their fiscal targets are planning to loosen on average slightly, by 0.1 percentage point of GDP, their fiscal stance in 2015.

In the cases of France, which the Commission assesses not to have taken effective action under its excessive deficit procedure in 2014 and which no longer plans to comply with its 2015 excessive deficit procedure deadline according to its draft budgetary plan, and of Italy and Belgium, whose draft budgetary plans indicate non-compliance with the debt rule, the Commission will examine its position regarding obligations under the SGP in early March 2015,

2015 draft budgetary plans

Commission opinion on compliance of 2015 draft budgetary plans with SGP *(SGP commitment)*	Actual structural effort 2015 (EC 2014 autumn forecast)	2015 structural effort commitment under SGP (in percentage points)
"Compliant"		
Germany *(preventive arm)*	*-0.1*	*0.0 (at MTO)*
Luxemburg *(preventive arm)*	*-0.7*	*0.0 (at MTO)*
Netherlands *(preventive arm)*	*-0.3*	*0.0 (at MTO)*
Slovakia *(preventive arm)*	*0.8*	*0.6*
Ireland *(EDP deadline 2015)*	*0.4*	*1.9*
"Broadly compliant"		
Estonia *(preventive arm)*	*0.1*	*0.5*
Latvia *(preventive arm)*	*-0.2*	*-0.4*[1)]
Slovenia *(EDP deadline 2015)*	*0.3*	*0.5*
Finland *(preventive arm)*	*0.0*	*0.1*
"Risk of non-compliance"		
Belgium *(preventive arm)*	*0.4*	*0.7 (debt rule)*
Italy *(preventive arm)*	*0.1*	*2.5 (debt rule)*
Malta *(EDP deadline 2014)*	*-0.2*	*0.6*
Austria *(preventive arm)*	*0.1*	*0.6*
Spain *(EDP deadline 2016)*	*-0.2*	*0.8*
France *(EDP deadline 2015)*	*0.1*	*0.8*
Portugal *(EDP deadline 2015)*	*-0.3*	*0.5*

Sources: Draft budgetary plans for 2015 (http://ec.europa.eu/economy_finance/economic_governance/sgp/budgetary_plans/index_en.htm) and the European Commission's 2014 autumn forecast.
1) Reduction of adjustment requirement based on pension reform and investment clause.

2 For two countries subject to the preventive arm (Belgium and Italy) the debt rule is currently the binding constraint. For both countries the Commission will decide in spring 2015 on the need to open a debt-based excessive deficit procedure.

in the light of the finalisation of budget laws and the expected specification of structural reform programmes announced by the countries' governments. For France, if the Council confirms its current assessment of non-compliance with the Pact, it could eventually lead to a stepping up of the country's excessive deficit procedure, including possible sanctions. For Belgium and Italy, if the Commission confirms its assessment of a breach of the debt rule, it would subsequently have to prepare a report under Article 126(3) of the Treaty that could lead to a debt-based excessive deficit procedure, unless mitigating factors are found for non-compliance with the debt benchmark.

Furthermore, the Commission assesses the composition of public finances at the country level as inappropriate. It stresses that, while recent moves to reduce the tax burden on labour go in the right direction towards the needed, more growth-friendly composition of public finances, there has been little, if any, progress in making the composition of expenditure more growth-friendly.

While structural reforms are currently of vital importance to enhance economies' growth potential, if such reforms were to be accounted for in the assessment of SGP compliance, it would need to be in full compliance with existing Pact provisions. Under the preventive arm, measureable fiscal costs of structural reforms with a positive effect on long-term sustainability can be taken into account. Under the corrective arm, structural reforms can play a role as a so-called relevant factor when deciding on a deadline extension, but the latter are only possible if the two pre-conditions of effective action and adverse macroeconomic developments are both fulfilled.

The Eurogroup invited, on 8 December, Member States whose draft budgetary plans are broadly compliant with the provisions of the SGP to ensure compliance with these provisions within the national budgetary process and welcomed their commitment to take compensatory measures as appropriate. Furthermore, the Eurogroup called on those Member States whose plans run the risk of non-compliance with the rules of the preventive arm to take, in a timely manner, additional measures to address the risks regarding an appropriate convergence towards their medium-term budgetary objectives and to respect the debt rule. In turn, countries under the corrective arm of the SGP should ensure a timely correction of their excessive deficits and appropriate convergence towards their medium-term objectives afterwards, and respect the debt rule. To this end, Malta, Austria, Belgium, Italy, France, Portugal and Spain committed to take the measures needed to close the gaps identified by the Commission, thereby ensuring compliance with the SGP.

It is important that the review of draft budgetary plans is followed up in a structured manner, which requires the full and consistant implementation of the euro area's existing fiscal and macroeconomic governance framework.