Specifications on the implementation of the Stability and Growth Pact

and

Guidelines on the format and content of Stability and Convergence Programmes

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INTRODUCTION

This Opinion updates and replaces the opinion of the Economic and Financial Committee on the content and format of the Stability and Convergence Programmes, endorsed by the Ecofin Council on 7 September 2010.

The Stability and Growth Pact fully entered into force on 1 January 1999 and consists of a rules-based framework with both preventive and corrective elements. It initially consisted of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure and the Resolution of 17 June 1997 on the Stability and Growth Pact. On 20 March 2005 the Council adopted a report entitled "Improving the implementation of the Stability and Growth Pact". The report was endorsed by the European Council in its conclusions of 22 March 2005, which stated that the report updates and complements the Stability and Growth Pact, of which it is now an integral part. On 27 June 2005 the Pact was complemented by two additional Regulations 1055/05 and 1056/05, amending the Regulations 1466/97 and 1467/97.

The Stability and Growth Pact is an essential part of the macroeconomic framework of the Economic and Monetary Union, which contributes to achieving macroeconomic stability in the EU and safeguarding the sustainability of public finances. A rules-based system is the best guarantee for commitments to be enforced and for all Member States to be treated equally. The two nominal anchors of the Stability and Growth Pact - the 3% of GDP reference value for the deficit ratio and the 60% of GDP reference value for the debt ratio - and the medium-term budgetary objectives are the centrepiece of multilateral surveillance.

On 16 November 2011 and 8 November 2011, Regulations 1466/97 and 1467/97 were further amended by Regulation (EU) No 1175/2011 of the European Parliament and of the Council and Council Regulation (EU) No 1177/2011 and flanked by Regulation (EU) No 1173/2011 of the European Parliament and of the Council, which endowed the Stability and Growth Pact with effective enforcement mechanisms for euro-area Member States and on 8 November 2011, the Council adopted Directive 2011/85/EU on requirements for budgetary frameworks of the Member States. While not a part of the Stability and Growth Pact, this Directive is instrumental to the achievement of its objectives.

Member States, the Commission and the Council are committed to deliver on their respective responsibilities, applying the Treaty and the Stability and Growth Pact in an effective and timely manner. In addition, since effectiveness of peer support and peer pressure is an integral part of the Stability and Growth Pact, the Council and the Commission are expected to motivate and make public their positions and decisions at all relevant stages of the procedure of the Stability and Growth Pact, also by means of economic dialogue with the European Parliament, where appropriate. The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly. Member States are expected to take into account guidance and recommendation(s) from the Council in particular when preparing their budgets, and to appropriately involve national Parliaments in the EU procedures, taking into account national parliamentary and budgetary procedures.

In order to enhance ownership of the EU budgetary framework, national budgetary rules and procedures should ensure compliance with the Stability and Growth Pact[1]. Without prejudice to the balance between national and Community competences, implementation of provisions going beyond the minimum requirements established by Directive 2011/85/EU, should be discussed at the European level in the context of the assessment of Stability and Convergence Programmes. The effectiveness of national budgetary frameworks is also a relevant factor to consider in the context of the Excessive Deficit Procedure.

These Guidelines for the implementation of the Stability and Growth Pact consist of 2 sections. The first section elaborates on the implementation of the Stability and Growth Pact. The second section consists of guidelines on the content and format of the Stability and Convergence programmes.

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[1] As a result of Protocol 15 and Article 7(bis) of the Council Directive on requirements for budgetary frameworks of the Member States, articles 5 to 7 (on country-specific numerical fiscal rules) of the Directive do not apply to the United Kingdom.

SECTION I

SPECIFICATIONS ON THE IMPLEMENTATION OF THE STABILITY AND GROWTH PACT

A. THE PREVENTIVE ARM OF THE STABILITY AND GROWTH PACT

1) The Medium term budgetary objective (MTO)

Definition of the MTO

The MTO is defined in cyclically adjusted terms, net of one-off and other temporary measures. The reference method for the estimation of potential output is the one adopted by the Council on 12 July 2002.[2] One-off and temporary measures are measures having a transitory budgetary effect that does not lead to a sustained change in the intertemporal budgetary position.[3]

The MTO pursues a triple aim:

(i) *providing a safety margin with respect to the 3% of GDP deficit limit.* This safety margin is assessed for each Member State taking into account past output volatility and the budgetary sensitivity to output fluctuations.

(ii) *ensuring rapid progress towards sustainability.* This is assessed against the need to ensure the convergence of debt ratios towards prudent levels taking into account the economic and budgetary impact of ageing populations.

(iii) *taking (i) and (ii) into account, allowing room for budgetary manoeuvre, in particular taking into account the needs for public investment.*

The MTOs are differentiated for individual Member States to take into account the diversity of economic and budgetary positions and developments as well as of fiscal risk to the sustainability of public finances, also in face of prospective demographic changes. The country-specific MTOs may diverge from the requirement of a close to balance or in surplus position.

Specifically, the country-specific MTOs should take into account three components:

i) the debt-stabilising balance for a debt ratio equal to the (60% of GDP) reference value (dependent on long-term potential growth), implying room for budgetary manoeuvre for Member States with relatively low debt;

ii) a supplementary debt-reduction effort for Member States with a debt ratio in excess of the (60% of GDP) reference value, implying rapid progress towards it; and

iii) a fraction of the adjustment needed to cover the present value of the future increase in age-related government expenditure.

according to the formula

$$MTO = \max(MTO^{ILD}, MTO^{MB}, MTO^{Euro/ERM2})$$

where the components MTO^{MB} and $MTO^{Euro/ERM2}$ refer to the "minimum benchmark" as agreed by the EFC and to the Pact obligation for euro area Member States and Member States participating in ERM II to have an MTO not lower than –1% of GDP, respectively, while the component MTO^{ILD} relates to implicit and explicit liabilities:

$$MTO^{ILD} = \underbrace{Balance_{debt-stabilizing(60\% of GDP)}}_{(i)} + \underbrace{+\alpha * AgeingCosts}_{(ii)} + \underbrace{Effort_{debt-reduction}}_{(iii)}$$

The first term on the right hand-side is the budgetary balance that would stabilise the debt ratio at 60% of GDP. The second term is the budgetary adjustment that would cover an agreed fraction of the present value of the increase in the age related expenditure. Alternatively, Member States can choose a fraction of the cost of ageing corresponding to the pre-financing of age-related expenditure up to an agreed number of years before the end of the AWG projections. The third term represents a supplementary debt-reduction effort, specific to countries with gross debt above 60% of GDP. In order to operationalize this formula, explicit parameters will be made public through a Commission services paper, endorsed by the EFC.

This methodology implies a partial frontloading of the budgetary cost of ageing irrespective of the current level of debt. In addition to these criteria, MTOs should provide a safety margin with respect to

[2] Due to data problems, a different method may be used for the estimation of potential output in the case of recently acceded member states (RAMS). The method used should be agreed by the Economic Policy Committee on the basis of a proposal of the Output Gap Working Group.

[3] Examples of one-off and temporary measures are the sales of non-financial assets; receipts of auctions of publicly owned licenses; short-term emergency costs emerging from natural disasters; tax amnesties; revenues resulting from the transfers of pension obligations and assets.

the 3% of GDP deficit reference value and, for euro area Member States and Member States participating in ERM II, in any case not exceed a deficit of 1% of GDP. The examination of the country-specific MTOs by the Commission and the Council in the context of the assessment of Stability and Convergence programmes should indicate whether they adequately reflect the objectives of the Stability and Growth Pact on the basis of the above criteria. Potential growth and the budgetary cost of ageing should be assessed in a long-term perspective on the basis of the projections produced by the EPC.

Member States may present more ambitious MTOs than implied by the formula above if they feel their circumstances call for it.

For Member States outside of the euro area and not participating in ERM II, country-specific MTOs would be defined with a view to ensuring the respect of the triple aim mentioned above.

Art. 2a of Regulation (EC) No 1466/97 states that the respect of the MTO shall be included in the national budgetary framework in accordance with Chapter IV of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.[4]

Procedure for defining and revising the MTOs

In order to ensure a consistent application of the principles mentioned above for defining the country-specific MTOs, regular methodological discussions take place in the Economic and Financial Committee.

Taking into account the results of these discussions, Member States present their MTO in their Stability or Convergence programme. The MTOs are examined by the Commission and the Council in the context of the assessment of the Stability and Convergence Programmes. In accordance with Article 121(3) of the Treaty and Articles 5(2) and 9(2) of Regulation 1466/97, where the Council considers that the MTO presented in a Stability or Convergence programme should be strengthened, it shall, in its opinion, invite the Member State concerned to adjust its programme.

The MTO shall be revised every three years, preferably following the publication of the "Ageing Report". The MTOs could be further revised in the event of the implementation of a structural reform with a major impact on the sustainability of public finances. In particular, the MTO should be revised in the special case of systemic pension reforms with an impact on long term fiscal sustainability in line with the provision foreseen in section 2 below for major structural reforms.

2) The adjustment path toward the medium-term budgetary objective and deviations from it

Fiscal behaviour over the cycle and adjustment path toward the MTO

Member States should achieve a more symmetrical approach to fiscal policy over the cycle through enhanced budgetary discipline in periods of economic recovery, with the objective to avoid pro-cyclical policies and to gradually reach their medium-term budgetary objective, thus creating the necessary room to accommodate economic downturns and reduce government debt at a satisfactory pace, thereby contributing to the long-term sustainability of public finances.

Sufficient progress towards the MTO shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures. The presumption is to use revenue windfalls, namely revenues in excess of what can normally be expected from economic growth, for deficit and debt reduction, while keeping expenditure on a stable sustainable path over the cycle. For that purpose, the Commission and the Council will assess the growth path of government expenditure against a reference medium-term rate of potential GDP growth. The reference-medium-term rate of potential GDP growth is based on regularly updated forward-looking projections and backward-looking estimates, taking into account the relevant calculation method provided by the EPC. The reference-medium-term rate of potential GDP growth will be the average of the estimates of the previous 5 years, the estimate for the current year and the projections for the following 4 years.

The government expenditure aggregate to be assessed should exclude interest expenditure, expenditure on EU programmes fully matched by EU funds revenue, and non-discretionary changes in unemployment benefit expenditure. Due to the potentially very high variability of investment expenditure, especially in the case of small Member States, the government expenditure aggregate should be adjusted by averaging investment expenditure over 4 years.

- Member States that have already reached their MTO could let automatic stabilisers play freely over the

4 As a result of Protocol 15 and Article 7(bis) of the Council Directive on requirements for budgetary frameworks of the Member States, articles 5 to 7 (on country-specific numerical fiscal rules) of the Directive do not apply to the United Kingdom.

cycle. They should in particular avoid pro-cyclical fiscal policies in 'good times'. Avoidance should be expected to result in annual expenditure growth not exceeding the reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures.

- Member States that have not yet reached their MTO should take steps to achieve it over the cycle. Their adjustment effort should be higher in good times; it could be more limited in bad times. In order to reach their MTO, Member States of the euro area or of ERM-II should pursue an annual adjustment in cyclically adjusted terms, net of one-off and other temporary measures, of 0.5 of a percentage point of GDP as a benchmark. In parallel, the growth rate of expenditure net of discretionary revenue measures in relation to the reference medium-term rate of potential GDP growth should be expected to yield an annual improvement in the government balance in cyclically adjusted terms net of one-offs and other temporary measures of 0.5 of a percentage point of GDP. The reasons for differences between the results yielded by the two benchmarks should be carefully assessed.

- A Member State that has overachieved the MTO could temporarily let annual expenditure growth exceed a reference medium-term rate of potential GDP growth as long as, taking into account the possibility of significant revenue windfalls, the MTO is respected throughout the programme period.

For Member States that have not yet reached their MTO and are faced with a debt level exceeding 60% of GDP or with pronounced risks in terms of overall debt sustainability, a faster adjustment path towards the medium-term budgetary objectives should be expected, i.e. above 0.5 of a percentage point of GDP as a benchmark in cyclically adjusted terms, net of one-off and other temporary measures.

Member States that do not follow the appropriate adjustment path will explain the reasons for the deviation in the annual update of their Stability/Convergence Programme.
Based on the principles mentioned above and on the explanations provided by Member States, the Commission and the Council, in their assessments of the Stability or Convergence Programmes, should examine whether a higher adjustment effort is made in economic good times.

In case of an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government or in periods of severe economic downturn for the euro area or the Union as a whole, Member States may be allowed to temporarily depart from the adjustment path towards the medium-term objective implied by the benchmarks for the structural balance and expenditure, on condition that this does not endanger fiscal sustainability in the medium-term.

In case the Council considers that the adjustment path towards the MTO should be strengthened, it shall, in accordance with Article 121(3) of the Treaty and Articles 5(2) and 9(2) of Regulation 1466/97, invite the Member State concerned to adjust its programme.

Definition of economic 'good times'

The identification of periods of economic 'good times' should be made after an overall economic assessment.

In principle, economic 'good times' should be identified as periods where output exceeds its potential level, taking into account tax elasticities.

In this context, tax revenue windfalls and shortfalls should also be taken into account. Windfall tax revenues should be understood as revenues in excess of what can normally be expected from economic growth.

The reference for the estimation of potential output is the methodology adopted by the Council on 12 July 2002.[5] The reference to 'tax elasticities' should be understood as the overall elasticity of taxes to GDP, resulting from the influence of economic factors (fiscal leads and lags, supply and demand composition of growth), abstracting from the implementation of discretionary measures.

Differences between the adjustment implied by the structural balance and the expenditure benchmarks should be duly taken into account in the assessment of the adjustment effort in economic good versus bad times.

Given the uncertainty surrounding output gap levels' estimates, the change in the output gap could also be considered, especially when the output gap is estimated to be close to zero. For instance, periods where the output gap is slightly negative but moving rapidly towards positive values could be considered as 'good times'. Symmetrically, periods where the output gap is slightly positive but moving rapidly towards negative values could not be considered as 'good times'.

[5] See footnote 2.

Structural reforms

In order to enhance the growth oriented nature of the Pact, structural reforms will be taken into account when defining the adjustment path to the medium-term objective for countries that have not yet reached this objective and in allowing a temporary deviation from this objective for countries that have already reached it.

Only major reforms that have direct long-term positive budgetary effects, including by raising potential growth, and therefore a verifiable positive impact on the long-term sustainability of public finances will be taken into account. For instance, major health, pension and labour market reforms may be considered.

Special attention will be paid to pension reforms introducing a multi-pillar system that includes a mandatory fully funded pillar, which have a direct negative impact on the general government deficit (as defined in Article 1 of Regulation 3605/93). This impact stems from the fact that revenue, which used to be recorded as government revenue, is diverted to a pension fund, which is fully-funded and classified in a sector other than general government, and that some pensions and other social benefits, which used to be government expenditure, will be, after the reform, paid by the pension scheme.[6] In this specific case, the allowed deviation from the adjustment path to the MTO or the objective itself should reflect the amount of the direct incremental impact of the reform on the general government balance, provided that an appropriate safety margin with respect to the deficit reference value is preserved.

The direct impact of a pension reform that involves a transfer of pension obligations to or from general government is made up of two elements[7]: i) the social contributions or other revenue collected by the pension scheme taking over the pension obligations and which is meant to cover for these obligations and ii) the pension and other social benefits paid by this pension scheme in connection to the obligations transferred. The direct impact of such pension reforms does not include interest expenditure that is linked to the higher accumulation of debt due to forgone social contributions or other revenues.

Following such reforms, the MTO should be adjusted to reflect the new situation, in line with the procedures for defining and revising MTO in section 1 above.

Only adopted reforms should be considered, provided that sufficient, detailed information is provided in the Stability and Convergence Programmes (see Section II). The budgetary effects of the reforms over time are assessed by the Commission and the Council in a prudent way, making due allowance for the margin of uncertainties associated to such an exercise.

Major structural reforms as identified above will be taken into account when defining the adjustment path to the medium-term objective for countries that have not yet reached this objective and in allowing a temporary deviation from this objective for countries that have already reached it, with the clear understanding that:

(i) *a safety margin to ensure the respect of the 3% of GDP reference value for the deficit is guaranteed.* This safety margin will be assessed for each Member State taking into account past output volatility and the budgetary sensitivity to output fluctuations.

(ii) *the budgetary position is expected to return to the MTO within the period covered by the Stability or Convergence Programme.* For this purpose, the period under consideration will be limited to - at most - the four years following the year of the presentation of the programme.

In case a temporary deviation from the medium-term objective or the adjustment path toward it is allowed, this should be specified in the Council Opinion on the Stability/Convergence Programme.

3) A significant deviation from the appropriate adjustment path

The identification of a significant deviation from the medium-term budgetary objective or the appropriate adjustment path towards it should be based on outcomes as opposed to plans. It should follow an overall assessment, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures.

For a Member State that has not reached its MTO, the deviation will be considered significant if:

[5] For more information on the classification of pension schemes, see *'Eurostat's Manual on Government Deficit and Debt'*.

[7] Such transfer of pension obligations occurs when a mandatory fully funded pillar is introduced, enhanced or scaled down with an equivalent change in the outstanding pension obligations of the public pension scheme. Therefore, a transfer of pension obligation effectively takes place between a pension scheme classified outside general government and another scheme that is classified inside.

both

(i) the deviation of the structural balance from the appropriate adjustment path is at least 0.5% of GDP in one single year or at least 0.25% of GDP on average per year in two consecutive years; and

(ii) an excess of the rate of growth of expenditure net of discretionary revenue measures over the appropriate adjustment path defined in relation to the reference medium-term rate of growth has had a negative impact on the government balance of at least 0.5 of a percentage point of GDP in one single year, or cumulatively in two consecutive years;

or if one of the two conditions (i) and (ii) is verified and the overall assessment evidences limited compliance also with respect to the other condition.

The government expenditure aggregate to be assessed should exclude interest expenditure, expenditure on EU programmes fully matched by EU funds revenue, and non-discretionary changes in unemployment benefit expenditure. Due to the potentially very high variability of investment expenditure, especially in the case of small Member States, the government expenditure aggregate should be adjusted by averaging the investment expenditure over four years. The excess of expenditure growth over the medium-term reference will not be counted as a breach of the expenditure benchmark to the extent that it is fully offset by revenue increases mandated by law.

For a Member State that has overachieved the MTO, the occurrence of condition (ii) is not considered in the assessment of the existence of a significant deviation, unless significant revenue windfalls are assessed to jeopardise the MTO over the programme period.

A deviation may not be considered significant in the case of severe economic downturn for the euro area or the EU as a whole or when resulting from an unusual event outside of the control of the Member State concerned which has a major impact on the financial position of the general government, provided that this does not endanger fiscal sustainability in the medium-term.

B. THE EXCESSIVE DEFICIT PROCEDURE

In line with the provisions of the Treaty, the Commission has to examine compliance with budgetary discipline on the basis of both the deficit and the debt criteria.

1) Preparation of a Commission report under Article 126(3)

The Commission will always prepare a report under Article 126(3) of the Treaty when at least one of the conditions (a) or (b) below holds:

(a) a reported or planned government deficit exceeds the reference value of 3% of GDP;

(b) a reported government debt ratio is above the reference value of 60% of GDP and

(i) its differential with respect to the reference value has not decreased over the past three years at an average rate of one-twentieth as a benchmark, which is measured by an excess of the debt ratio reported for the year t over a backward-looking element of a benchmark for debt reduction computed as follows[8]

$bb_t=60\%+0.95/3(b_{t-1}-60\%)$
$+0.95^2/3(b_{t-2}-60\%)+0.95^3/3(b_{t-3}-60\%)$

(ii) the budgetary forecasts as provided by the Commission services indicate that, at unchanged policies, the required reduction in the differential will not occur over the three-year period encompassing the two years following the final year for which the data is available, which is measured by an excess of the debt ratio forecast by the Commission services for the year t+2 over a forward-looking element of a benchmark for debt reduction computed as follows

$bb_{t+2}=60\%+0.95/3(b_{t+1}-60\%)$
$+0.95^2/3(b_t-60\%)+0.95^3/3(b_{t-1}-60\%)$, where bb_t stands for the benchmark debt ratio in year t and b_t stands for the debt-to-GDP ratio in year t

(iii) the breach of the benchmark cannot be attributed to the influence of the cycle, to be assessed according to a common methodology to be published by the Commission.

The Commission may, in accordance with Article 126(3), also prepare a report notwithstanding the fulfilment of the requirements under the criteria laid down in Article 126(2)(a) of the Treaty if it is of the opinion that there is a risk of an excessive deficit in a Member State.

For a Member State that is subject to an excessive deficit procedure on 8 November 2011 and for a

[8] bb_t stands for the benchmark debt ratio in year t and b_t stands for the debt-to-GDP ratio in year t

period of three years from the correction of the excessive deficit, occurrence of condition (b) above will not trigger the preparation of a report under Article 126(3) of the Treaty, provided that the Member States concerned makes sufficient progress towards compliance with the debt reduction benchmark as assessed in the Opinion adopted by the Council on its Stability and Convergence Programmes. Specifically, the Member State concerned should present in its Stability or Convergence Programme budgetary objectives consistent with the respect of the debt reduction benchmark, including the forward-looking element, by the end of the three-year transitional period. The assessment should in particular consider whether the budgetary plans are adequate to the task of avoiding breaching the benchmark by the end of the programme period.

In order to define "sufficient progress towards compliance" during the transition period, the Commission will identify a minimum linear structural adjustment ensuring that – if followed – Member States will comply with the debt rule at the end of the transition period. This minimum linear structural adjustment path will be built taking into account both the influence of the cycle and the forward-looking nature of the debt benchmark. Also, in order to ensure continuous and realistic progress towards compliance during the transition period, Member States should respect simultaneously the two below conditions:

- First, the annual structural adjustment should not deviate by more than ¼ % of GDP from the minimum linear structural adjustment ensuring that the debt rule is met by the end of the transitional period.

- Second, at any time during the transition period, the remaining annual structural adjustment should not exceed ¾ % of GDP.

When the deficit ratio exceeds the reference value, the Commission shall examine in its report if one or more of the exceptions foreseen in Article 126(2)(a) apply. In particular, the Commission shall consider whether the deficit ratio has declined substantially and continuously and reached a level that comes close to the reference value.

The Commission shall also consider whether the excess of the deficit ratio over the reference value is only exceptional and temporary and whether the ratio remains close to the reference value. In order to be considered as exceptional, the excess has to result from an unusual event outside the control of the Member State concerned and with a major impact on the financial position of the general government, or it has to result from a 'severe economic downturn'. The Commission and the Council may consider an excess over the reference value resulting from a 'severe economic downturn' as exceptional in the sense of the second indent of Article 126(2)(a) of the Treaty if the excess over the reference value results from a negative annual GDP volume growth rate or from an accumulated loss of output during a protracted period of very low annual GDP volume growth relative to its potential. The indicator for assessing accumulated loss of output is the output gap, as calculated according to the method agreed by the Council on 12 July 2002.[9] The excess over the reference value shall be considered as temporary if the forecasts provided by the Commission indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

The Commission report under Article 126(3) shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors.

Before establishing that an excessive deficit exists on the basis of the debt criterion, the whole range of relevant factors covered by the Commission report under Article 126(3) should be taken into account.

The Commission report should appropriately reflect the following relevant factors:

- the developments in the medium-term economic position (in particular potential growth, including the different contributions provided by labour, capital accumulation and total factor productivity, cyclical developments and the private sector net savings position);

- the developments in the medium-term budgetary position (in particular, the record of adjustment towards the medium-term budgetary objective, the level of the primary balance and developments in primary expenditure, both current and capital, the implementation of policies in the context of the prevention and correction of excessive macroeconomic imbalances, the implementation of policies in the context of the common growth strategy of the Union and the overall quality of public finances, in particular the effectiveness of national budgetary frameworks);

- the developments in the medium-term government debt position, its dynamics and sustainability (in particular, risk factors including the maturity structure and currency denomination of the debt, stock-flow adjustment and its composition, accumulated reserves and other financial assets, guarantees, notably linked to the financial sector, and any implicit liabilities related to ageing and private debt, to the extent that it

[9] See footnote 2.

may represent a contingent implicit liability for the government);

Furthermore, due consideration will be given in the report to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria. To this end, the Member State concerned may put forward to the Council and to the Commission the specific factors that it considers relevant, in due time for the preparation of the report under Article 126(3) and as a rule within one month of the reporting dates established in Article 3 (2) and (3) of Regulation (EC) No 479/2009. The Member State shall provide the information necessary for the Commission and the Council to make a comprehensive assessment of the budgetary impact of these factors. In that context, special consideration will be given to: budgetary efforts towards increasing or maintaining at a high level financial contributions to fostering international solidarity and to achieving Union policy goals; the debt incurred in the form of bilateral and multilateral support between Member States in the context of safeguarding financial stability; the debt related to financial stabilisation operations during major financial disturbances. A balanced overall assessment has to encompass all these factors.

The Commission report will give due consideration to the implementation of pension reforms introducing a multi-pillar system that includes a mandatory fully funded pillar and to the net cost of the publicly managed pillar. The net cost of the reform is measured as its direct impact on the general government deficit (as defined in Article 1 of Regulation 479/2009). This impact stems from the fact that revenue, which used to be recorded as government revenue, is diverted to a pension fund, which is fully-funded and classified in a sector other than general government, and that some pensions and other social benefits, which used to be government expenditure, will be, after the reform, paid by the pension scheme. Thus, net costs do not include interest expenditure that is linked to the higher accumulation of debt due to forgone social contributions or other revenues. This consideration should be part of a broader assessment of the overall features of the pension system created by the reform, namely whether it promotes long-term sustainability while not increasing risks for the medium-term budgetary position.

2) The decision on the existence of an excessive deficit

When assessing compliance on the basis of the deficit criterion, if the debt ratio exceeds 60% of GDP, the relevant factors assessed in the Commission report under Article 126(3) will also be taken into account in the steps leading to the decision on the existence of an excessive deficit foreseen in paragraphs (4), (5) and (6) of Article 126 of the Treaty only if the double condition of the overarching principle – that, before the relevant factors mentioned in Article 2 (3) of Regulation 1467/97 are taken into account, the general government deficit remains close to the reference value and its excess over the reference value is temporary – is fully met. However, the relevant factors assessed in the Commission report under Article 126(3) will be taken into account in the steps leading to a decision on the existence of an excessive deficit foreseen in paragraphs (4), (5) and (6) of Article 126 of the Treaty when assessing compliance on the basis of the debt criterion.**.** The balanced overall assessment to be made by the Council in accordance with Article 126(6) shall encompass all these factors.

Where the excess of the deficit over the reference value reflects the implementation of a pension reform introducing a multi-pillar system that includes a mandatory fully funded pillar, the Commission and the Council shall also consider the net cost of the reform to the publicly managed pillar when assessing developments in EDP deficit figures as long as the general government deficit does not significantly exceed a level that can be considered close to the 3% of GDP reference value and the debt ratio does not exceed the 60% of GDP reference value, on condition that overall fiscal sustainability is maintained.

The Council shall decide on the existence of an excessive deficit in accordance with Article 126 (6) of the Treaty, on the basis of a Commission recommendation, as a rule within four months of the reporting dates established in Article 3 (2) and (3) of Regulation (EC) No 479/2009. The Council may decide later on the cases in which the budgetary statistical data have not been validated by the Commission (Eurostat) shortly after the reporting dates established in Regulation (EC) No 479/2009.

3) The correction of an excessive deficit

Minimum fiscal effort for countries in excessive deficit and initial deadline for its correction

The Council recommendations under Article 126(7) and notices under Article 126(9), based on recommendations of the Commission, will request that the Member State concerned achieves annual budgetary targets that, on the basis of the underlying forecast, are consistent with a minimum annual improvement in its cyclically adjusted balance net of one-off and temporary measures of at least 0.5 of a percentage point of GDP as a benchmark, in order to correct the excessive deficit within the deadline set in the recommendation.

As a rule, the initial deadline for correcting an excessive deficit should be the year after its identification and thus, normally, the second year after its occurrence unless there are special circumstances. This deadline should be set taking into account the effort that the Member State concerned can undertake, with a minimum of 0.5% of GDP, based on a balanced assessment of the relevant factors considered in the Commission report under Article 126(3). If this effort seems sufficient to correct the excessive deficit in the year following its identification, the initial deadline should not be set beyond the year following its identification.

Longer deadlines could be set, in particular in the case of excessive deficit procedures based on the debt criterion, when the government balance requested to comply with the debt criterion is significantly higher than a 3% of GDP deficit.

Further steps in the excessive deficit procedure and clarifying the conditions for abeyance

The Council recommendation made in accordance with Article 126(7) of the Treaty shall establish a deadline of no longer than six months for effective action to be taken by the Member State concerned. When warranted by the seriousness of the situation, the deadline to take effective action to comply with a recommendation in accordance with Article 126(7) may be three months.

Following the expiry of the deadline established for taking effective action in a recommendation under Article 126(7) or the four months period following the adoption of a notice under Article 126(9), the Commission shall assess whether the Member State concerned has acted in compliance with the recommendation or notice. This assessment should consider whether the Member State concerned has publicly announced or taken measures that seem sufficient to ensure adequate progress towards the correction of the excessive deficit within the time limits set by the Council.

The assessment should take into account the report on action taken in response to the Council recommendation or notice that, within the deadline provided for, the Member State concerned should submit to the Commission and the Council. The report on action taken in response to the Council recommendation in accordance with Article 126(7) should include the targets for the government expenditure and revenue and for the discretionary measures, on both the expenditure and the revenue side, consistent with the Council recommendation as well as information on the measures taken and the nature of those envisaged to achieve the targets. The report on action taken in response to a notice in accordance with Article 126(9), should include the targets for the government expenditure and revenue and for the discretionary measures, on both the expenditure and the revenue side, as well as information on the actions being taken in response to specific Council recommendations, so as to allow the Council to take, if necessary, a decision to impose sanctions in accordance with Article 126(11) of the Treaty. Any such decision shall be taken no later than four months after the Council decision giving notice to the euro area Member State concerned to take measures in accordance with Article 126 (9) TFEU.

In case it appears that the Member State concerned has not acted in compliance with the recommendation or notice, the following step of the procedure provided by Article 126 of the Treaty, as clarified by Regulation (EC) No 1467/97, shall be activated.

If the Commission considers that the Member State has acted in compliance with the recommendation or notice, it shall inform the Council accordingly, and the procedure shall be held in abeyance. If, thereafter, it appears that action by the Member State concerned is not being implemented or is proving to be inadequate and if the possibility of repeating the same step does not apply, the following step of the procedure provided by Article 126 of the Treaty, as clarified by Regulation (EC) No 1467/97, shall be immediately activated. When considering whether the following step of the procedure should be activated, the Commission and the Council should take into account whether the measures required in the recommendation or notice are fully implemented and whether other budgetary variables under the control of the government, in particular expenditure, are developing in line with what was assumed in the recommendation or notice.

In the specific case of recommendations or notices which have set a deadline for the correction of the excessive deficit more than one year after its identification, the assessment of the action taken made by the Commission after the expiry of the deadline established in the recommendation under Article 126(7) or the four month period following a notice under Article 126(9) should mainly focus on the measures taken in order to ensure the achievement of the recommended budgetary targets in the year following the identification of the excessive deficit. The Commission should, during the period of abeyance, assess whether the measures already announced or taken are being adequately implemented and whether additional measures are announced and implemented in order to ensure adequate progress toward the correction of the excessive deficit within the time limits set by the Council.

Clarifying the concept of effective action and repetition of steps in the excessive deficit procedure

If effective action has been taken in compliance with a recommendation under Article 126(7) (or notice under Article 126(9)) of the Treaty and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that recommendation or notice, the Council may decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) (or notice under Article 126(9)) of the Treaty. The revised recommendation (or notice) may, taking into account the relevant factors mentioned in Article 2 (3) of Regulation 1467/97, notably extend the deadline for the correction of the excessive deficit by one year as a rule.

A Member State should be considered to have taken ‘effective action’ if it has acted in compliance with the recommendation or notice, regarding both the implementation of the measures required therein and budgetary execution. The assessment should in particular take into account whether the Member State concerned has achieved the annual budgetary targets initially recommended by the Council and the underlying improvement in the cyclically adjusted balance net of one off and other temporary measures. In case the observed budget balance proves to be lower than recommended or if the improvement of the cyclically adjusted balance net of one off and other temporary measures falls significantly short of the adjustment underlying the target, a careful analysis of the reasons for the shortfall would be made. In particular, the analysis should take into account whether expenditure targets have been met and the planned discretionary measures on the revenue side have been implemented.

The occurrence of unexpected adverse economic events with major unfavourable budgetary effects shall be assessed against the economic forecast underlying the Council recommendation or notice.

4) Conditions of abrogation of Council decisions in the context of the EDP

When considering whether an excessive deficit procedure should be abrogated, the Commission and the Council should take a decision on the basis of notified data.

Moreover, the excessive deficit procedure should only be abrogated if the Commission forecasts indicate that:

- the deficit will not exceed the 3% of GDP threshold over the forecast horizon; and

- the debt ratio fulfils the forward-looking element of the debt benchmark.

5) Abrogation of Council decisions in the context of the EDP based on the deficit criterion for Member States having implemented multi-pillar pension reforms

When considering under Article 126 (12) whether some or all of the Council decisions under Article 126(6) to (9) and (11) related to excessive deficit procedures based on the deficit criterion should be abrogated, the Commission and the Council, take into account the net cost of a pension reform introducing a multi-pillar system that includes a mandatory fully-funded pillar only if the general government deficit has declined substantially and continuously and has reached a level that comes close to the reference value.

SECTION II

GUIDELINES ON THE FORMAT AND CONTENT OF STABILITY AND CONVERGENCE PROGRAMMES

The Stability and Growth Pact requires Member States to submit Stability or Convergence Programmes, which are at the basis of the Council’s surveillance of budgetary positions and its surveillance and co-ordination of economic policies. The Council, on a recommendation from the Commission, and after consulting the Economic and Financial Committee, will, if necessary, adopt an opinion on the programmes. If it considers that its objectives and contents should be strengthened, in particular with regard to the adjustment path towards the MTO, the Council will, in its opinion, invite the Member State concerned to adjust its programme.

Member States are expected to take the policy measures they deem necessary to meet the objectives of their Stability or Convergence Programmes, whenever they have information indicating actual or expected significant divergence from those objectives.

The submission and assessment of Stability and Convergence Programmes is an important component of the "European Semester" of economic policy coordination and surveillance. Under the European Semester, the Commission and the Council shall assess Stability and Convergence Programmes before key decisions on the national budgets for the following years are taken, to provide policy advice on fiscal policy intentions. Member States shall align the timing of submissions and assessments of Stability and Convergence Programmes and National Reform Programmes.[10] For reasons of expediency, a copy of the programmes should be submitted to a single electronic email addressed at the Commission.[11]

Under the European Semester the policy surveillance and coordination cycle starts with a horizontal review under which the European Council, based on input from the Commission and the Council, identifies the main economic challenges facing the EU and the euro area and give strategic guidance on policies. Member States are expected to take into account the horizontal guidance by the European Council when preparing their Stability and Convergence Programmes and justify any departure from it. Similarly, the Commission and Council are expected to take due account of the guidance from the European Council when assessing the individual programmes.

In view of the strengthened role of the Stability and Convergence Programmes in the process of multilateral surveillance under the European Semester, it is important that their information content is suitable and allows for comparison across Member States. Whilst acknowledging that the programmes are the responsibility of national authorities and that the possibilities and practices differ across countries, Council Regulation (EC) No 1466/97, as amended by Council Regulation (EC) No 1055/05 and by Regulation (EU) Y of the European Parliament and of the Council, sets out the essential elements of these programmes. In particular, Stability and Convergence Programmes include the necessary information for a meaningful discussion on fiscal policy for the short and the medium term, including a fully-fledged multi-annual macroeconomic scenario, projections for the main government finances variables and the relevant components, and a description and quantification of the envisaged budgetary strategy.

The experience gathered during the first years of implementation of the Pact with the Stability and Convergence Programmes shows that guidelines on the content and format of the programmes not only assist the Member States in drawing up their programmes, but also facilitate their examination by the Commission, the Economic and Financial Committee and the Council, thus providing for a consistent implementation of the Stability and Growth Pact.

The guidelines set out below should be considered as a code of good practice and checklist to be used by Member States in preparing Stability or Convergence Programmes. Member States are expected to follow the guidelines, and to justify any departure from them. Member States under financial programme assistance could submit only the tables as in annex 2.

1) Status of the programme and of the measures

Each programme mentions its status in the context of national procedures, notably whether the programme was presented to the national Parliament and whether there has been parliamentary approval of the programme. The programme also indicates whether the national Parliament had the opportunity to discuss the Council opinion on the previous programme and, if relevant, any recommendation, decision, or warning.

The state of implementation of the measures (enacted versus planned) presented in the programme should be specified.

2) Content of Stability and Convergence Programmes

In order to facilitate comparison across countries, Member States are expected, as far as possible, to follow the model structure for the programmes in Annex 1. The standardisation of the format and content of the programmes along the lines set below will substantially improve the conditions for equality of treatment.

The quantitative information should be presented following a standardised set of tables (Annex 2). Member States should endeavour to supply all the information in these tables. The tables could be complemented by further information wherever deemed useful by Member States.

In addition to the guidelines set out below, the programmes should provide information on the consistency with the broad economic policy guidelines and the National Reforms Programmes of the budgetary objectives and the measures to achieve them, as well as on the measures to enhance the quality of public finances and to achieve long-term sustainability.

[10] In the case of the UK, which has a different fiscal year, submission will follow the presentation of the Spring Budget and be as close as possible to its publication.

[11] ec-european-semester@ec.europa.eu

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Objectives and their implementation

Member States will present in their Stability and Convergence Programmes budgetary targets for the general government balance in relation to the MTO, and the projected path for the general government debt ratio. Convergence programmes shall also present the medium-term monetary policy objectives and their relationship to price and exchange rate stability.

Member States, when preparing the first Stability or Convergence Programme after a new government has taken office, are invited to show continuity with respect to the budgetary targets endorsed by the Council on the basis of the previous Stability/Convergence Programme and - with an outlook for the whole legislature - to provide information on the means and instruments envisaged to reach these targets by setting out its budgetary strategy.

Member States will provide in their Stability or Convergence Programme an update of the fiscal plans for the year of submission of the programme, based on the April notification, including a description and quantification of the policies and measures. The Stability or Convergence Programme will explain revisions of general government balance and expenditure targets set in the programmes submitted in year t-1.

To permit a comprehensive understanding of the path of the government balance and of the budgetary strategy in general, information should be provided on expenditure and revenue ratios and on their main components, as well as on one-off and other temporary measures. Bearing in mind the conditions and criteria to establish the expenditure growth under Article 5(1) of Regulation 1466/97, the programmes should also present the planned growth path of government expenditure, including the corresponding allocation for gross fixed capital formation, the planned growth path of government revenue at unchanged policy and a quantification of the planned discretionary revenue measures.

To permit a comprehensive understanding of the path of the debt ratio, information should be provided, to the extent possible, on components of the stock-flow adjustment, planned privatisation receipts, and other financial operations. In order to assess the extent of possible risks to the budgetary outlook, information should also be provided on implicit liabilities related to ageing and private debt, to the extent that it may represent a contingent implicit liability for the government, and other contingent liabilities, such as public guarantees, with potentially large impact on the general government accounts.

The budget balances should be broken down by sub-sector of general government (central government, state government for Member States with federal or quasi-federal institutional arrangements, local government and, social security).

Assumptions and data

Stability and Convergence programmes should be based on realistic and cautious macroeconomic forecasts. The Commission forecasts can provide an important contribution for the coordination of economic and fiscal policies. Member States are free to base their Stability/Convergence Programmes on their own projections. Budgetary planning shall be based on the most likely macro-fiscal scenario or on a more prudent scenario. Particular caution should be used in including the effects of recently implemented structural reforms. If such effects are included in the projections, these should be explicitly quantified together with the underlying assumptions and/or model, including variables and parameters. Significant divergences between the national and the Commission services' forecasts should be explained in some detail. This explanation will serve as a reference when forecast errors are assessed ex post.

The programmes should present the main assumptions about expected economic developments and important economic variables that are relevant to the realisation of their budgetary plans, such as government investment expenditure, real GDP growth, employment and inflation. The assumptions on real GDP growth should be underpinned by an indication of the expected demand contributions to growth. The possible upside and downside risks to the outlook should be brought out.

Furthermore, the programmes should provide sufficient information about GDP developments to allow an analysis of the cyclical position of the economy and the sources of potential growth. The outlook for sectoral balances and, especially for countries with a high external deficit, the external balance should be analysed.

As regards external macroeconomic developments, euro area Member States and Member States participating in ERM II in particular should use the "common external assumptions" on the main extra-EU variables used by the Commission in its spring forecast, which shall be provided in due time by the Commission (on the basis of the final table in Annex 2), or, for comparability reasons, present sensitivity analysis based on the common assumptions for these variables when the differences are significant.

Assumptions about interest rates and exchange rates, if not presented in the programme, should be provided to the Commission services to allow for the technical assessment of the programmes.

In order to facilitate the assessment, the concepts used shall be in line with the standards established at European level, notably in the context of the European system of accounts (ESA). The programmes should ensure the formal and substantial consistency of the required information on budgetary aggregates and economic assumptions with ESA concepts. This information may be complemented by a presentation of specific accounting concepts that are of particular importance to the country concerned.

Measures, structural reforms and long-term sustainability

The programmes should describe the budgetary and other economic policy measures being taken, envisaged or assumed to achieve the objectives of the programme, and, in the case of the main budgetary measures, an assessment of their quantitative effects on the general government balance. Measures having significant 'one-off' effects should be explicitly identified. The further forward the year of the programme, the less detailed the information could be, but could contain quantified examples of measures that would allow reaching the programme targets.

However, in order to allow a meaningful discussion the programmes should provide concrete indications on the budgetary strategy for year t+1, including preliminary projections under unchanged policy and targets for the general government balance, expenditure and revenue and their main components, and a description and quantification of the policies taken, envisaged or assumed to reach the fiscal targets. Should the Council consider that the information provided in the programme is insufficient, it shall, in its opinion, invite the Member State concerned to submit a revised programme, in line with the provisions of Articles 5(2) and 9(2) of regulation 1466/97.

As implied by the Commission services for the purpose of forecasting, the 'no-policy change' assumption involves the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail. In particular, only measures that have been specified and committed to by governments will be taken into account. Each Member State should appropriately define a scenario at unchanged policies and make public the involved assumptions, methodologies and relevant parameters.

Structural reforms should be specifically analysed when they are envisaged to contribute to the achievement of the objectives of the programme. In particular, given the relevance of 'major structural reforms' in defining the adjustment path to the medium-term objective for Member States that have not yet reached it and allowing a temporary deviation from the MTO for Member States that have already reached it (see Section I), the programmes should include comprehensive information on the budgetary and economic effects of such reforms. Programmes should notably include a quantitative cost-benefit analysis of the short-term costs – if any – and of the direct long-term benefits of the reforms from the budgetary point of view. They should also analyse the projected impact of the reforms on economic growth over time while explaining the used methodology.

The programmes should also provide information on measures taken or envisaged to improve the quality of public finances on both the revenue and expenditure side (e.g. tax reform, value-for-money initiatives, measures to improve tax collection efficiency and expenditure control).

The programmes could further include information on existing and envisaged national budgetary rules (expenditure rules, etc.) as well as on other institutional features of the public finances, in particular budgetary procedures and public finance statistical governance.

Finally, the programmes should outline the countries' strategies to ensure the sustainability of public finances, especially in light of the economic and budgetary impact of ageing populations and the fiscal risks stemming from contingent liabilities.

The Working Group on Ageing (AWG) of the Economic Policy Committee (EPC) is responsible for producing common budgetary projections on: public spending on pensions; health-care; long-term care; education; unemployment transfers; and where possible and relevant, age-related revenues, such as pension contributions. These common projections will provide the basis for the assessment by the Commission and the Council of sustainability of the Member States' public finances within the context of the SGP. They should be included in the programmes.

The programmes should include all the necessary additional information, both of qualitative and quantitative nature, so as to enable the Commission and the Council to assess the sustainability of Member States' public finances based on current policies. To this end, information included in programmes should focus on new relevant information that is not fully reflected in the latest common EPC projections. For example, Member States might want to include information on the latest demographic trends and major policy changes in pension and health-care systems. Programmes should clearly distinguish between measures that have been enacted and measures that are envisaged.

Given the uncertainty surrounding long-term projections, the assessment by the Commission and the Council should include stress tests that provide an indication of the risks to public finance sustainability in the event of adverse demographic, financial, economic or budgetary developments.

In addition to the requirements mentioned above, Member States may present different projections, based on national calculations. In such a case, Member States should explain in detail the underlying assumptions of these projections, the used methodology, the policies implemented or planned to meet the assumptions, and the divergences between the national projections and the common projections produced by the AWG.

These national projections and their assumptions, including their plausibility, will enter the basis for the assessment by the Commission and the Council of sustainability of the Member States' public finances within the context of the SGP.

Sensitivity analysis

Given the inevitability of forecast errors, Stability and Convergence Programmes include comprehensive sensitivity analyses and/or develop alternative scenarios, in order to enable the Commission and the Council to consider the complete range of possible fiscal outcomes.

In particular, the programmes shall provide an analysis of how changes in the main economic assumptions would affect the budgetary and debt position and indicate the underlying assumptions about how revenues and expenditures are projected to react to variations in economic variables. This should include the impact of different interest rate assumptions and, for non-participating Member States, of different exchange rate assumptions, on the budgetary and debt position. Countries that do not use the common external assumptions should endeavour to provide a sensitivity analysis also on main extra-EU variables when the differences are significant.

In the case of 'major structural reforms' (see section I), the programmes shall also provide an analysis of how changes in the assumptions would affect the effects on the budget and potential growth.

Time horizon

The information about paths for the general government surplus/ deficit ratio, the expenditure and revenue ratios and their components, in particular the planned growth of government expenditure, the planned growth path of government revenue at unchanged policy and the planned discretionary revenue measures, appropriately quantified, as well as for debt ratio and the main economic assumptions should be on an annual basis and should cover, as well as the current and preceding year, at least the three following years (Article 3(3) and Article 7(3)), leaving it open to Member States to cover a longer period if they so wish.

The horizon for the long-term projections on the budgetary implications of ageing should cover the same period as the EPC projections.

Updating of programmes

In order to ensure proper ex ante coordination and surveillance of economic policies, submissions of Stability and Convergence Programmes should take place each year preferably by mid–April, but in any case not later than the end of April.

The whole process should be completed with the adoption of Council Opinions on the programmes as a rule before the end of July each year.

Stability and Convergence Programmes should show how developments have compared with the budgetary targets in the previous programme or update, including the information on how the last year's policy guidance in the Council Opinions on the Stability and Convergence Programmes and country-specific recommendations have been reflected in national budgets. When applicable, they should explain in detail the reasons for the deviations from the budgetary targets (with a special focus on developments in government expenditure). When significant deviations occur, the update should mention whether measures are taken to rectify the situation, and provide information on these measures. The Commission and the Council will assess the implementation of the commitments announced by the Member States in their previous Stability and Convergence programmes and of the policy guidance provided by the Council on the previous programme. The outcome of this assessment will be duly taken into account when addressing new policy guidance to Member States.

ANNEX 1

MODEL STRUCTURE FOR THE STABILITY AND CONVERGENCE PROGRAMMES

1. Overall policy framework and objectives

2. Economic outlook
(on the basis of Tables 1a-1d, 5 and 8)
- *World economy/technical assumptions*
- *Cyclical developments and current prospects*
- *Medium-term scenario*
- *Sectoral balances*
- *Growth implications of "major structural reforms"*

3. General government balance and debt
(on the basis of Tables 2, 3, 4 and 5)
- *Policy strategy*
- *Medium-term objectives*
- *Actual balances and updated budgetary plans for the current year*
- *Medium-term budgetary outlook, including description and quantification of fiscal strategy*
- *Structural balance (cyclical component of the balance, one-off and temporary measures), fiscal stance, including in terms of expenditure benchmark*
- *Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments*
- *Budgetary implications of "major structural reforms"*

4. Sensitivity analysis and comparison with previous programme
(on the basis of Table 6)
- *Alternative scenarios and risks*
- *Sensitivity of budgetary projections to different scenarios and assumptions*
- *Comparison with previous programme*

5. Sustainability of public finances
(on the basis of Table 7 and 7a)
- *Policy strategy*
- *Long-term budgetary prospects, including the implications of ageing populations*
- *Contingent liabilities.*

6. Quality of public finances
(on the basis of Tables 2 and 3)
- *Policy strategy*
- *Composition, efficiency and effectiveness of expenditure*
- *Structure and efficiency of revenue systems*

7. Institutional features of public finances
- *National budgetary rules*
- *Budgetary procedures, incl. public finance statistical governance*
- *Other institutional developments in relation to public finances*

ANNEX 2

TABLES TO BE CONTAINED IN THE STABILITY AND CONVERGENCE PROGRAMMES

Provision of data on variables in bold characters is a requirement.
Provision of data on other variables is optional but highly desirable.

The tables should be submitted to the Commission by means of the dedicated web application.

Table 1a. Macroeconomic prospects

	ESA Code	**Year X-1**	**Year X-1**	**Year X**	**Year X+1**	**Year X+2**	**Year X+3**
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g						
2. Nominal GDP	B1*g						
Components of real GDP							
3. Private consumption expenditure	P.3						
4. Government consumption expenditure	P.3						
5. Gross fixed capital formation	P.51						
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53						
7. Exports of goods and services	P.6						
8. Imports of goods and services	P.7						
Contributions to real GDP growth							
9. Final domestic demand		-					
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-					
11. External balance of goods and services	B.11	-					

Table 1b. Price developments

	ESA Code	**Year X-1**	**Year X-1**	**Year X**	**Year X+1**	**Year X+2**	**Year X+3**
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator							
2. Private consumption deflator							
3. HICP[1]							
4. Public consumption deflator							
5. Investment deflator							
6. Export price deflator (goods and services)							
7. Import price deflator (goods and services)							
[1] Optional for stability programmes.							

Table 1c. Labour market developments

	ESA Code	**Year X-1**	**Year X-1**	**Year X**	**Year X+1**	**Year X+2**	**Year X+3**
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment, persons[1]							
2. Employment, hours worked[2]							
3. Unemployment rate (%)[3]							
4. Labour productivity, persons[4]							
5. Labour productivity, hours worked[5]							
6. Compensation of employees	D.1						
7. Compensation per employee					optional	optional	optional
[1]Occupied population, domestic concept national accounts definition.							
[2]National accounts definition.							
[3]Harmonised definition, Eurostat; levels.							
[4]Real GDP per person employed.							
[5]Real GDP per hour worked.							

Table 1d. Sectoral balances

% of GDP	ESA Code	**Year X-1**	**Year X**	**Year X+1**	**Year X+2**	**Year X+3**
1. Net lending/borrowing vis-à-vis the rest of the world	B.9					
of which:						
- Balance on goods and services						
- Balance of primary incomes and transfers						
- Capital account						
2. Net lending/borrowing of the private sector	B.9					
3. Net lending/borrowing of general government	EDP B.9					
4. Statistical discrepancy			optional	optional	optional	optional

Table 2a. General government budgetary prospects

	ESA Code	**Year X-1**	**Year X-1**	**Year X**	**Year X+1**	**Year X+2**	**Year X+3**
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (EDP B.9) by sub-sector							
1. General government	S.13						
2. Central government	S.1311						
3. State government	S.1312						
4. Local government	S.1313						
5. Social security funds	S.1314						
General government (S13)							
6. Total revenue	TR						
7. Total expenditure	TE[1]						
8. Net lending/borrowing	EDP B.9						
9. Interest expenditure	EDP D.41						
10. Primary balance[2]							
11. One-off and other temporary measures[3]							
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)							
12a. Taxes on production and imports	D.2					optional	optional
12b. Current taxes on income, wealth, etc	D.5					optional	optional
12c. Capital taxes	D.91					optional	optional
13. Social contributions	D.61					optional	optional
14. Property income	D.4					optional	optional
15. Other[4]						optional	optional
16=6. Total revenue	TR						
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[5]							
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2						
17a. Compensation of employees	D.1						
17b. Intermediate consumption	P.2						
18. Social payments (18=18a+18b)							
***of which* Unemployment benefits**[6]							
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131						
18b. Social transfers other than in kind	D.62						
19=9. Interest expenditure	EDP D.41						
20. Subsidies	D.3						
21. Gross fixed capital formation	P.51						
22. Capital transfers	D.9						
23. Other[7]							
24=7. Total expenditure	TE[1]						
p.m.: Government consumption (nominal)	P.3						

[1]Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.
[2]The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).
[3]A plus sign means deficit-reducing one-off measures.
[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).
[5]Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.
[6] Includes cash benefits (D.621 and D.624) and in kind benefits (D.631) related to unemployment benefits.
[7] D.29+D4 (other than D.41) + D.5+D.7+P.52+P.53+K.2+D.8.

Table 2b. No-policy change projections [1]

		Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Total revenue at unchanged policies							
2. Total expenditure at unchanged policies							

[1]: The projections shall start at the time when the Stability or Convergence Programme is drafted (please indicate the cut-off date) and show revenue and expenditure trends under a 'no-policy change' assumption, as defined on p.15. Therefore, figures for X-1 should correspond to actual data for revenue and expenditure.

Table 2c. Amounts to be excluded from the expenditure benchmark

		Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue							
2. Cyclical unemployment benefit expenditure [1]							
3. Effect of discretionary revenue measures [2]							
4. Revenue increases mandated by law							

[1]: Please detail the methodology used to obtain the cyclical component of unemployment benefit expenditure. It should build on unemployment benefit expenditure as defined in COFOG under the code 10.5

[2]: Revenue increases mandated by law should not be included in the effect of discretionary revenue measures: data reported in rows 3 and 4 should be mutually exclusive.

Table 3. General government expenditure by function

% of GDP	COFOG Code	Year X-2	Year X+3
1. General public services	1		
2. Defence	2		
3. Public order and safety	3		
4. Economic affairs	4		
5. Environmental protection	5		
6. Housing and community amenities	6		
7. Health	7		
8. Recreation, culture and religion	8		
9. Education	9		
10. Social protection	10		
11. Total expenditure (=item 7=23 in Table 2)	TE[1]		

[1]Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

Table 4. General government debt developments

% of GDP	ESA Code	**Year X-1**	**Year X**	**Year X+1**	**Year X+2**	**Year X+3**
1. Gross debt[1]						
2. Change in gross debt ratio						
Contributions to changes in gross debt						
3. Primary balance[2]						
4. Interest expenditure[3]	EDP D.41					
5. Stock-flow adjustment						
of which:						
- Differences between cash and accruals[4]						
- Net accumulation of financial assets[5]						
of which:						
- privatisation proceeds						
- Valuation effects and other[6]						
p.m.: Implicit interest rate on debt[7]						
Other relevant variables						
6. Liquid financial assets[8]						
7. Net financial debt (7=1-6)						
8. Debt amortization (existing bonds) since the end of the previous year						
9. Percentage of debt denominated in foreign currency						
10. Average maturity				-	-	-

[1]As defined in Regulation 3605/93 (not an ESA concept).

[2]Cf. item 10 in Table 2.

[3]Cf. item 9 in Table 2.

[4]The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

[5]Liquid assets (currency), government securities, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

[6]Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

[7]Proxied by interest expenditure divided by the debt level of the previous year.

[8]AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares).

Table 5. Cyclical developments

% of GDP	ESA Code	**Year X-1**	**Year X**	**Year X+1**	**Year X+2**	**Year X+3**
1. Real GDP growth (%)						
2. Net lending of general government	EDP B.9					
3. Interest expenditure	EDP D.41					
4. One-off and other temporary measures[1]						
5. Potential GDP growth (%)						
contributions: - labour - capital - total factor productivity						
6. Output gap						
7. Cyclical budgetary component						
8. Cyclically-adjusted balance (2 - 7)						
9. Cyclically-adjusted primary balance (8 + 3)						
10. Structural balance (8 - 4)						

[1]A plus sign means deficit-reducing one-off measures.

Table 6. Divergence from previous update

	ESA Code	**Year X-1**	**Year X**	**Year X+1**	**Year X+2**	**Year X+3**
Real GDP growth (%)						
Previous update						
Current update						
Difference						
General government net lending (% of GDP)	EDP B.9					
Previous update						
Current update						
Difference						
General government gross debt (% of GDP)						
Previous update						
Current update						
Difference						

Table 7. Long-term sustainability of public finances

% of GDP	**2007**	**2010**	**2020**	**2030**	**2040**	**2050**	**2060**
Total expenditure							
Of which: **age-related expenditures**							
Pension expenditure							
Social security pension							
Old-age and early pensions							
Other pensions (disability, survivors)							
Occupational pensions (if in general government)							
Health care							
Long-term care *(this was earlier included in the health care)*							

Education expenditure							
Other age-related expenditures							
Interest expenditure							
Total revenue							
Of which: property income							
Of which: from pensions contributions (or social contributions if appropriate)							
Pension reserve fund assets							
Of which: consolidated public pension fund assets (assets other than government liabilities)							
Systemic pension reforms[1]							
Social contributions diverted to mandatory private scheme[2]							
Pension expenditure paid by mandatory private scheme[3]							
Assumptions							
Labour productivity growth							
Real GDP growth							
Participation rate males (aged 20-64)							
Participation rates females (aged 20-64)							
Total participation rates (aged 20-64)							
Unemployment rate							
Population aged 65+ over total population							

[1]Systemic pension reforms refer to pension reforms that introduce a multi-pillar system that includes a mandatory fully funded pillar.

[2]Social contributions or other revenue received by the mandatory fully funded pillar to cover for the pension obligations it acquired in conjunction with the systemic reform

[3]Pension expenditure or other social benefits paid by the mandatory fully funded pillar linked to the pension obligations it acquired in conjunction with the systemic pension reform

Table 7a. Contingent liabilities

% of GDP	**Year X-1**	**Year X**
Public guarantees		Optional
Of which: linked to the financial sector		Optional

Table 8. Basic assumptions

This table should preferably be included in the programme itself; if not, these assumptions should be transmitted to the Council and the Commission together with the programme.

	Year X-1	Year X	Year X+1	Year X+2	Year X+3
Short-term interest rate[1] (annual average)					
Long-term interest rate (annual average)					
USD/€ exchange rate (annual average) (euro area and ERM II countries)					
Nominal effective exchange rate					
(for countries not in euro area or ERM II) exchange rate vis-à-vis the € (annual average)					
World excluding EU, GDP growth					
EU GDP growth					
Growth of relevant foreign markets					
World import volumes, excluding EU					
Oil prices (Brent, USD/barrel)					

[1]If necessary, purely technical assumptions.