



EU INDEPENDENT
FISCAL INSTITUTIONS

European Fiscal Monitor

February 2020



Contents



EU INDEPENDENT
FISCAL INSTITUTIONS

[Overview](#)

[Austria](#)

[Bulgaria](#)

[Cyprus](#)

[Czech Republic](#)

[Denmark](#)

[Estonia](#)

[Finland](#)

[France](#)

[Germany](#)

[Greece](#)

[Hungary](#)

[Ireland](#)

[Italy](#)

[Latvia](#)

[Lithuania](#)

[Luxembourg](#)

[Malta](#)

[The Netherlands](#)

[Portugal](#)

[Romania](#)

[Slovakia](#)

[Slovenia](#)

[Spain](#)

[United Kingdom](#)

[Contact Details](#)

Overview

This European Fiscal Monitor—the sixth in a twice-yearly series—covers 24 European economies. It looks at national developments through the eyes of the Independent Fiscal Institutions (IFIs). The latest update reflects submissions received from members over winter 2019/20.

A modest euro area recovery and low interests are helping the public finances, but debt remains high

Looking through the assessments made by IFIs, the modest recovery in the Euro Area and historically low interest rates are helping the public finances.

The situation varies across countries with some experiencing relatively fast growth, while others continue to face crisis-related legacies or longer-term structural challenges, including ageing.

Nevertheless, public debt remains high by historical standards in most countries.

There is concern among IFIs that the roof has not been mended while the sun shines. In other words, that economic good times—with employment growth and low funding costs—have not been availed of sufficiently to create scope for governments to support the economy in bad times. There is also a widespread recognition that ageing pressures will add to budgetary challenges in the coming decades.

For some countries, insufficient efforts to reduce debt from high levels are a concern:

- In Spain, AIReF notes that planned debt reductions for 2019 are unlikely

to be achieved, while reductions planned for 2020 are only barely feasible. With Spain's debt-to-GDP ratio projected to be 95 per cent in 2020, AIReF points to the fact that five years of strong economic growth and historically low interest rates have failed to reduce a debt-to-GDP ratio that has virtually stagnated.

- In France, government debt is also projected to remain high at 99 per cent of GDP for 2020. Yet the High Council notes that efforts to reduce a structural deficit of over 2 per cent of GDP are likely to be modest. As such, the Government may be required to present measures to bring its public finances back on track.
- In Italy, the UPB notes that government debt will peak in 2019 at just under 136 per cent of GDP before declining. Yet it expects that subsequent declines will fall short of requirements under the debt rule in either 2019 or in 2020-22.

Some countries with low debt burdens are still running tight fiscal policies

There are countries such as Germany and the Netherlands where debt burdens are relatively low.

In this monitor, the German Stability Council notes that the fiscal policy debate in Germany has focused on the target of achieving a balanced budget in headline terms. This is frequently referred to as the “black zero” target. The German Stability Council assesses that this focus leaves open the risk that structural surpluses are

allowed to build in some years and structural deficits in others. It recommends a shift in focus. That is, to focus on the structural balance rather than on headline measures that conceal cyclical developments, which might otherwise lead to inappropriate fiscal policy.

The EU's fiscal governance framework

Against the backdrop, there is a wider debate taking place about the fiscal governance framework in Europe and whether it is fit for purpose.

One concern among IFIs is the extent to which the EU fiscal framework encourages procyclicality. This principally relates to measurement challenges associated with potential output and the output gap. Structural balance estimates lean heavily on these calculations. The appropriateness of spending limits set under the Expenditure Benchmark also relies on the availability of good potential output estimates. Yet estimates have often proved procyclical, notwithstanding efforts to smooth through annual estimates.

The complexity of the EU fiscal rules and flexibility afforded to Member States that risk breaching the rules is widely perceived to undermine the framework. Further concerns relate to the extent to which the rules fail to support productive investment spending. In many cases, this was cut in the crisis years and has yet to return to pre-crisis levels. This objective could become more important in the context of efforts to meet the EU's climate change objectives.

A final strand of the reform debate that is worth considering relates to potential asymmetries in the fiscal rules. That is to

say, the rules might be perceived to be more prescriptive on excessive deficits and high debt burdens, but less prescriptive on cases where scope to expand budgetary policy exists.

The development of Independent Fiscal Institutions in EU countries in recent years can provide an additional mechanism to assess and guide fiscal policy.

Looking ahead

The challenges posed by sluggish overall growth, the legacy of high government debt and population ageing and rising demand for health are serious. Procyclical fiscal policies and a poorly functioning fiscal framework will add to a challenging context for many countries as the recovery matures.

However, well-designed fiscal policies and good use of favourable conditions should create more space to fight future downturns and to finance investment sustainably. This is particularly relevant in a world where low interest rates may persist. Especially if the costs of higher debt are likely to be much smaller than the costs to output from not raising investment or pursuing countercyclical policies.

It is with these considerations in mind that the Network of EU Independent Fiscal Institutions will gather its members' thoughts on the European Commission's review of the fiscal framework in the coming months. The hope is that the framework will in future help to ensure a sustainable fiscal policy that supports growth in incomes and employment.

Eddie Casey
EU Independent Fiscal Institutions Network and
Irish Fiscal Advisory Council

Key messages:

- Revenue and spending dynamics are shaped by economic slowdown and measures related to families, pensions and subsidies, but still sound fiscal outlook
- Austria will comply with EU fiscal rules in 2019 and 2020
- Non-compliance with national fiscal rules in single cases at state and local level of government from 2018 onward will cause some correction efforts but not any sanctions under Austria's 2012 Stability Pact

Economic slowdown in 2019 and 2020

Following the recent economic boom, the Austrian economy will cool down further in 2020, which means that real GDP growth will once more approach the average of recent years: real GDP growth (2018: 2.4%) is expected to weaken visibly in 2019 (to 1.7%) and to remain curbed in 2020 (1.4%).

Sound fiscal outlook for 2019 and 2020 in line with EU-rules

The Fiscal Advisory Council (FISK) forecasts a budget surplus of 0.6% of GDP in 2019 and 0.4% of GDP in 2020. In structural terms, the budget will be more or less balanced in both years. Hence, the expected budget path is in line with the EU's fiscal rules.

For 2019 and 2020, the FISK projects a clear decline in the annual growth rates of general government revenues to 3.3% in 2019 and 2.8% in 2020 (2018: 5.2%). Despite the slowing economy, revenue growth in 2019 is being driven by the persistently high growth of employee compensation and private consumption. On the other hand, revenue growth is being dampened by discretionary measures, above all the family bonus. The moderate economic growth expected for 2020 will cause a decline in growth in almost all tax-relevant areas. Furthermore, discretionary measures will decrease revenues: the fully unfolding effect of the family bonus, higher tax deductibles for pensioners and lower health insurance contributions of self-employed and farmers. Expenditure growth is primarily attributable to higher inflation rates, which determine the increase in state pension benefits and significantly influence wage increases in the public sector. In 2020, discretionary measures will show a marked effect on expenditure (e.g. a further graduated increase in pension benefits, full pension entitlement after 45 years of contributory service and higher minimum pension benefits for retirees with long contributory service). On the other hand, much lower interest expenses will clearly dampen spending growth in 2018 to 2020, thanks to a rollover of high-interest bonds and the reduction of liabilities of state-owned banks.

The FISK projects that the general government debt ratio will drop to 69.7% and 66.8% of GDP in 2019 and 2020, after 74.0% at end-2018 due to high primary surpluses and the shrinking indebtedness of nationalized banks. The marked decline reflects also still robust GDP growth and low financing costs.

Given the new legislative session, the projected fiscal path is subject to some uncertainty. However, the FISK does not expect any additional discretionary measures with large budgetary impact in 2020.

Structural reforms to safeguard long-term sustainability

The fiscal measures that were decided in the run-up to the latest parliamentary elections imply a marked, unfunded increase in pension expenditure and an automatic inflation-linked rise in long-term care benefits. Against this backdrop the FISK recommended – among others – a sustainable design and funding of long-term care and to strengthen sustainability and resilience of the pension system.

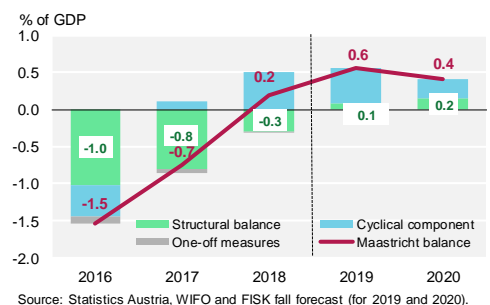
Some non-compliance with national fiscal rules

Some states and municipalities fail to comply with the national structural balance rule and/or the debt rule in 2018, some are expected to do so in the following years. But non-compliance will not trigger any sanctions due to the overall compliance at the general level of government.

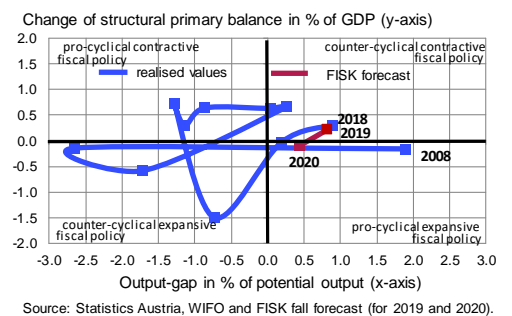
Key indicators

| | | 2016 | 2017 | 2018 | 2019 f | 2020 f | 2021 f | Source/ notes |
|------------------------------------|------------|------|------|------|--------|--------|--------|------------------|
| Real GDP growth rate | [% y-to-y] | 2.1 | 2.5 | 2.4 | 1.7 | 1.4 | - | 1 |
| Output Gap - FISK estimate | [%] | -0.7 | 0.2 | 0.9 | 0.8 | 0.4 | - | 2 |
| GG balance - targets MOF | [% of GDP] | -1.5 | -0.7 | 0.2 | 0.3 | -0.1 | - | 3 |
| GG balance - FISK | [% of GDP] | -1.5 | -0.7 | 0.2 | 0.6 | 0.4 | - | 2 |
| GG debt - MoF estimate | [% of GDP] | 82.9 | 78.3 | 74.0 | 70.0 | 67.5 | - | 3 |
| GG debt - FISK estimate | [% of GDP] | 82.9 | 78.3 | 74.0 | 69.7 | 66.8 | - | 2 |
| GG structural balance - FISK est. | [% of GDP] | -1.0 | -0.8 | -0.3 | 0.1 | 0.2 | - | 2 |
| Adapted fiscal rule expend. growth | [% y-to-y] | 3.9 | 2.4 | 4.3 | 3.5 | 3.6 | - | 2 |
| Discretionary revenue measures | [% of GDP] | -0.5 | -0.2 | -0.1 | -0.3 | -0.2 | - | 2 |

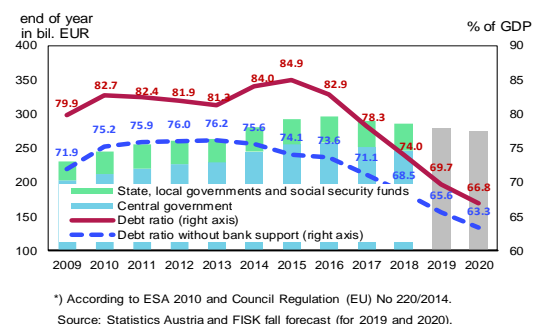
Government Balance and components



Fiscal Stance



Government debt ratio



Sources/notes:

1 – Austrian Institute of Economic Research (Oct. 2019)

2 – Austrian Fiscal Advisory Council

3 – Ministry of Finance

f – forecast/provisional estimate

Key messages:

- The uncertainty in international economics and politics poses a significant risk for the small and open Bulgarian economy as it destimulates private investment and may negatively affect exports.
- The FC finds a positive trend in the unpredictable budget deficits over the three-year forecast period, but considers that planning surpluses makes it possible to accumulate buffers against potential economic shocks.
- The large deviations between the planned and reported capital cost figures justify the Fiscal Council to recommend that measures should be taken in relation to more accurate capital program planning

Macroeconomic outlook

The expectations of the government for real growth of the Bulgarian economy are considerably higher than those for the European (EU 28) as the latter slows significantly. The October forecast envisioned real GDP growth of 3.4% but at the end of 2019 a bit higher levels are anticipated. However, the FC considers 3.3% growth in 2020 optimistic compared to 3% projected by the European commission. The level of uncertainty in economics and politics on international levels has risen significantly. Such trend has a strong negative impact on the small and open Bulgarian economy as it destimulates the private investment and poses great risk for export. The growth will be supported mainly by consumption. Consumption is driven by the increase of compensation in the limited labour market and by the low interest rates for household loans. However, both of these factors are volatile, thus the growth expectations could be considered unsteady. Public investments are also expected to rise with the upcoming end of the programming period. There are structural challenges in the economy and the labour market.

Short-term fiscal outlook

After three consecutive years of unplanned surpluses, 2019 will end up with a smaller CFP deficit (instead of 2%, expectations are about 1% of GDP). The CFP budget balance on a cash basis as of November 2019 is positive, amounting to BGN 1,300.8 million (1.1 % of forecast GDP) and is formed by an excess of revenues over expenditures under the national budget of BGN 1,640.6 million and a deficit under EU funds of BGN 339.8 million. Transactions in the end of the year generate significant disparities in data on accrual and cash basis and complicate budget balance forecast. Moreover, the planned deficit does not fit in the medium term fiscal policy. In 2019 the positive output gap is expected to reach 0.1%, but the budget balance is negative and the structural deficit amounts to 0.25% of GDP, i.e. talking to a slightly pro-cyclical fiscal policy.

Medium-term fiscal outlook

Reaching zero CFP balance over the period 2020-2022 is projected. An anti-cyclical fiscal stance is already planned in 2020. Regarding the Structural Balance, a deficit is planned in 2019 amounting to 0.93% of GDP and zero balance budget of GDP for 2020-2021. The medium-term budgetary objective is reaching a balanced budget position in 2020. The government set achievable targets and usually reported over-performance. In this way there is an unused fiscal space. The fiscal risk is low as a whole and the execution is easy to control.

Fiscal framework and national fiscal rules

The requirements of the fiscal rules in the budgetary framework 2020-2022 are respected. The risks of non-compliance are small. The structural budget balance is between -3% and 3%, which is above the MTO of -1%. The share of consolidated debt in GDP is significantly below 60%. The level is expected to fall below 17% in 2022 which means Bulgaria will remain in the top EU countries for this indicator. The General Government expenditure is projected to decrease to 36% of GDP.

Chart 1: Expected real GDP growth

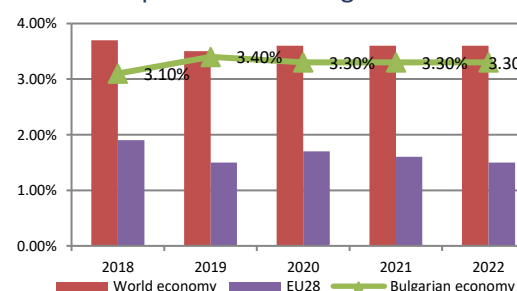


Chart 2: Structural balance and MTO

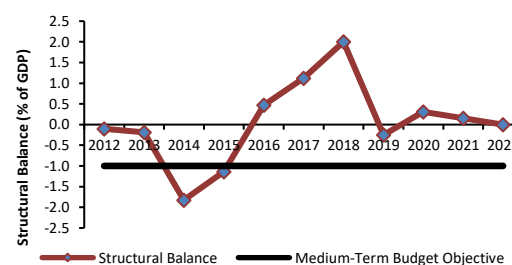
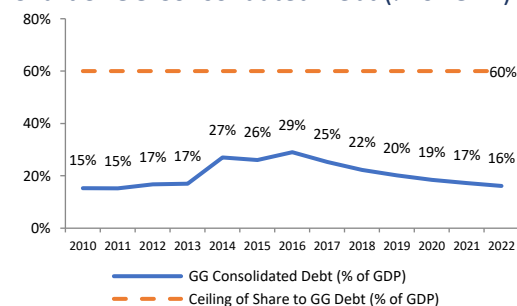


Chart 3: GG Consolidated Debt (% of GDP)



Key indicators

| | | 2016 | 2017 | 2018 | 2019 f | 2020 f | 2021 f | Source/ notes |
|--------------------------------|------------|------|------|-------|--------|--------|--------|------------------|
| Real GDP growth rate | [% y-to-y] | 3.5 | 3.1 | 3.4 | 3.3 | 3.3 | 3.3 | 1, 2 |
| Output Gap | [%] | 0.0 | 0.0 | 0.1 | 0.1 | 0.2 | 0.4 | 1 |
| GG balance | [% of GDP] | 1.1 | 0.5 | -0.2 | 0.3 | 0.2 | 0.1 | 1, 2 |
| GG debt | [% of GDP] | 25.3 | 22.2 | 20.1 | 18.5 | 17.2 | 16.1 | 1, 2 |
| GG structural balance | [% of GDP] | 1.1 | 0.5 | -0.25 | 0.3 | 0.2 | 0.0 | 1, 2 |
| Real GG expenditure growth | [% y-to-y] | 6.4 | 0.9 | 10.4 | 4.4 | 4.3 | 3.0 | 1, 3 |
| Discretionary revenue measures | [% of GDP] | 0.5 | 1.0 | 1.2 | 0.4 | 0.4 | 0.0 | 1, 3 |

Sources/notes:
1 - Ministry of Finance;
2 - National Statistical Institute
3 - Fiscal Council
f - forecast

Key messages:

- GDP growth rate slowdown: Projection for 2019 3.0%, from 3.9% in 2018, and 4.5% in 2017.
- Public debt expected to have fallen to 97.2% by the end of 2019.
- Primary surpluses projected to remain between 4.0-5.0% of GDP until 2022 accommodating reduction of debt.
- Government payroll setting mechanism has not been agreed. Government payroll cost amongst highest in the EU and expected to increase at a rate higher than nominal GDP growth rate.
- Very high private debt (over 250% of GDP) and little improvement in reducing non-performing loans.

Macroeconomic outlook

The economy of Cyprus is expected to have grown by 3.0% in real terms in 2019 and GDP exceeded the pre-crisis level. The positive outlook is primarily driven by increased consumption and activity in the construction, services and tourism sectors. This will boost employment and reduce unemployment to below 7%. The current account deficit is expected to have exceeded 5% of GDP in 2019 indicating lack of competitiveness. Need for structural reforms to preserve the positive momentum.

Short-term fiscal outlook

| | | Medium term Objective | | | | | | | |
|---------------------------|-----------------|-----------------------|------------|------------|------------|------------|------------|------------|----|
| | | 2017 | | 2018 | | 2019 | | 2020 | |
| | | | | MoF | EC | MoF | EC | MoF | EC |
| GDP | Constant prices | 19,649 | 20,742 | 20,742 | 21,489 | 21,663 | 22,370 | 22,560 | |
| General Government | € mil. | 354 | -996 | -913 | 817 | 802 | 595 | 587 | |
| balance | % GDP | 1.8 | -4.8 | -4.4 | 3.8 | 3.7 | 2.7 | 2.6 | |
| Output gap | % GDP | 1.0 | 1.9 | 3.3 | 3.2 | 3.9 | 3.1 | 4 | |
| Cyclical correction | 50% output gap | 0.5 | 1.0 | 1.7 | 1.6 | 2.0 | 1.6 | 2.0 | |
| Structural correction * | % GDP | 0.0 | 8.0 | 8.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Structural balance | % GDP | 1.3 | 2.3 | 2.0 | 2.2 | 1.7 | 1.1 | 0.6 | |
| | IMF projection | 1.4 | 1.5 | | 1.1 | | 1.3 | | |

* Government support to the Cyprus Coop Bank €1.66 bil. in 2018

The favourable macroeconomic environment has contributed to the over performance of the fiscal targets and the compliance with the national and the European fiscal frameworks. The cyclically adjusted primary balance was -3.3 in 2018 due the cash liquidity injection to the Cyprus Cooperative bank and the latest figures indicate that for 2019 it will be over 4%.

Fiscal framework and national fiscal rules

The MTO was set at 0% and no deviation is expected over the short to medium term. The government debt is expected to decline at a higher than required rate on strong government revenue and GDP growth rates.

Chart 1: Labour Market Developments

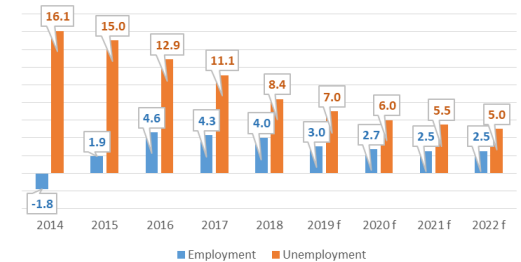


Chart 2: Evolution of General Government Debt

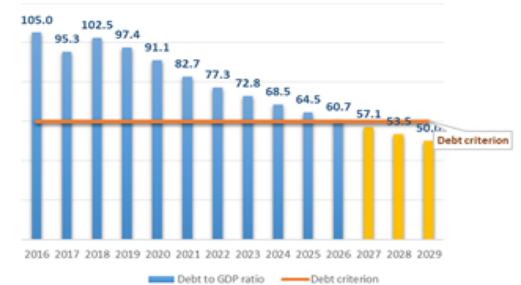
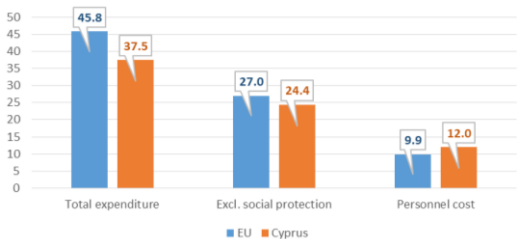


Chart 3: Government Expenditure % GDP (2017)



Key indicators

| | | 2017 | 2018 | 2019 f | 2020 f | 2021 f |
|-----------------------|------------|------|-------|--------|--------|--------|
| Real GDP growth rate | [% y-to-y] | 4.5 | 3.9 | 3.2 | 2.9 | 2.8 |
| Output Gap | [%] | 0.3 | 1.9 | 3.2 | 3.1 | 3.0 |
| GG balance | [% of GDP] | 1.6 | 2.4 | 2.2 | 1.0 | 0.6 |
| GG debt | [% of GDP] | 1.8 | -4.8 | 3.8 | 2.7 | 2.4 |
| GG structural balance | [% of GDP] | 95.8 | 102.5 | 97.4 | 91.1 | 82.7 |
| GG revenue | [% of GDP] | 39.7 | 39.7 | 42.3 | 44.6 | 45.0 |
| GG expenditure | [% of GDP] | 37.9 | 44.5 | 38.4 | 42.0 | 43.5 |

Source
Draft Budgetary Plan 2020-2022

Key messages:

- Czech economy growth will slow down mainly due to a decrease in foreign demand
- Reduced growth will be also reflected in a deterioration in the general government balance
- There is almost no risk of exceeding the fiscal rules in the short run. In the long run, however, ageing population remains the main issue. The related expenditure rise, such as the financing of old-age pensions, will require additional resources.

Macroeconomic outlook

The Czech economy is still operating above potential (see Chart 1). According to the latest data, GDP grew 2.5% y-o-y in the third quarter of 2019 (The Czech Statistical Office) and forecasted growth for the whole 2019 is 2.5% y-o-y compared to 3.0% y-o-y in 2018 (the November 2019 Macroeconomic forecast by Ministry of Finance of the Czech Republic; henceforth MoF, 2019). The current main drivers of growth remain household consumption and general government expenditure, as investment growth decreased to 0.9% in 2019 (compared to 7.2% in 2018). The unemployment rate was very low at 2% in 2019 (2.2% in 2018) and the wage bill growth was still high at 7.4% (compared to 9.5% in 2018). However, the unemployment rate will increase slightly in the coming years (MoF, 2019). Despite the still positive economic environment and an inflation rate of 3.1% (end of November 2019) that is higher than the 2% inflation target, the main monetary policy rate stays at 2% since May 2019. The slackening approach in raising rates is owing to weakening demand from our foreign trade partners as well as the persistent slight uncertainty from external environment (protectionist policy etc.).

Short-term fiscal outlook

This favourable economic environment was reflected in the Czech general government sector's balance and debt. General government surplus is expected to reach only 0.3% of GDP in 2019, mainly because of high spending on compensation of employees and on social transfers. Cyclically-adjusted balance is estimated to be -0.3% of GDP, so fiscal policy is still procyclical (see Key indicator forecast in the Table and Chart 1). The general government debt reached 31.2% of GDP in 2019, down by 1.4 pp compared to 2018. This was mainly due to a 5.9% increase in nominal GDP in 2019 (MoF, 2019).

Medium-term fiscal outlook

The state budget for 2020 was approved with a deficit of CZK 40 billion (-0.7% of GDP). On the revenue side, some services and goods are reclassified to the second reduced VAT rate. There is an increase in lump-sum expenses for sole traders. The excise tax rate on tobacco, alcohol and gambling is increased. On the expenditure side, salaries in the public sector, old-age pensions and parental allowances increase. According to MoF (2019), fiscal policy will still be slightly expansionary or neutral for 2020–2022. This, coupled with reduced economic growth, will be reflected in a deepening negative balance. General government balance is predicted to be -0.4% of GDP in 2022 and the cyclically-adjusted balance about -0.5% of GDP. Nevertheless, the debt-to-GDP ratio will continue to decline. By 2022, it is projected to reach 29.5% of GDP. The decline is mainly due to GDP growth in current prices, see Chart 2. However, the absolute amount of debt will grow (in 2018: CZK 1,735 billion, in 2022: CZK 1,890 billion).

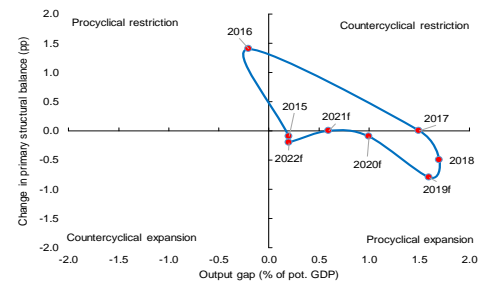
Fiscal framework and national fiscal rules

The forecasted structural balance and general government debt will not probably exceed their limits set by the Act No. 23/2017 Coll., on the rules of budgetary responsibility, over the next several years (see primarily CFC's Report on the Long-Term Sustainability of Public Finances, 2019, and Table below). However, there are potential risks arising from ageing population in the long run. For example, Chart 3 shows the different projections of the pension system balance (our projection – CFC; the Ministry of Finance projection – MoF; the Ministry of Labour and Social Affairs projection – MLSA). Despite the differences in the three projections, it is clear that the long-term sustainability of public finances and compliance with fiscal rules will be very difficult.

Key indicators

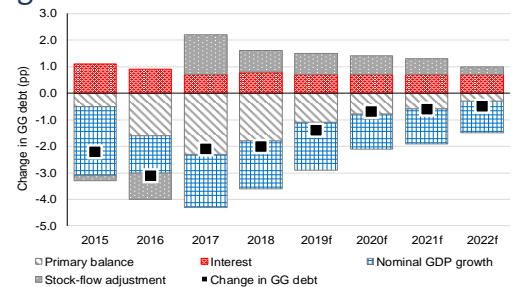
| | | 2016 | 2017 | 2018 | 2019 f | 2020 f | 2021 f | Source/ notes |
|-------------------------------------|------------|------|------|------|--------|--------|--------|------------------|
| Real GDP growth rate | [% y-to-y] | 2.5 | 4.4 | 3.0 | 2.5 | 2.0 | 2.2 | 1 |
| Output Gap | [%] | -0.2 | 1.5 | 1.7 | 1.6 | 1.0 | 0.6 | 1 |
| GG balance | [% of GDP] | 0.7 | 1.6 | 1.1 | 0.3 | 0.1 | -0.1 | 1 |
| GG debt | [% of GDP] | 36.8 | 34.7 | 32.6 | 31.2 | 30.6 | 30.0 | 1 |
| Cyclical budgetary component | [% of GDP] | -0.1 | 0.5 | 0.6 | 0.6 | 0.4 | 0.2 | 1 |
| Cyclically-adjusted balance | [% of GDP] | 0.8 | 1.0 | 0.5 | -0.3 | -0.3 | -0.3 | 1 |
| Cyclically-adjusted primary balance | [% of GDP] | 1.7 | 1.8 | 1.2 | 0.5 | 0.4 | 0.4 | 2 |
| Structural balance | [% of GDP] | 0.9 | 1.0 | 0.6 | -0.3 | -0.3 | -0.3 | 2 |
| GG expenditure growth | [% y-to-y] | -1.8 | 4.4 | 10.2 | 7.5 | 5.4 | 4.8 | 1 |
| Discretionary revenue measures | [% of GDP] | 0.4 | 0.3 | 0.4 | 0.2 | 0.0 | 0.0 | 3 |

Chart 1: Output gap and change in structural primary balance



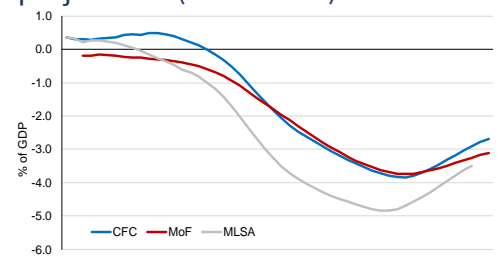
Source: MoF Fiscal Outlook (November 2019); Czech Fiscal Council (CFC; 2019) calculations. MoF forecast for 2019–2022, f = forecast.

Chart 2: Changes to General government debt ratio



Source: MoF – Fiscal Outlook (November 2019). MoF forecast for 2019–2022, f = forecast. Negative values = GG debt reduction.

Chart 3: Pension system balance – projections (2018–2068)



Source: CFC (2019); MoF – Convergence program (April 2019), MLSA – Report on the state of the pension system of the Czech Republic (2019).

Source:
1 – Fiscal Outlook of the Czech Republic (November, 2019), MoF
2 – Macroeconomic Forecast of the Czech Republic (November, 2019), MoF
3 – Convergence Program of the Czech Republic (April, 2016, 2017, 2018, 2019)
f – forecast

Key messages:

- The budget balance has been positive in 2017-19 helped by high revenue from the pension yield tax
- The structural balance is expected to be around balance from 2020 to 2025
- Danish fiscal policy is overly sustainable with a sustainability indicator (S2) of 1.8 per cent of GDP
- The Danish public finance is expected to be compliant with the European fiscal rules

Macroeconomic outlook

The Danish economy remains strong with employment expected to be above the structural level in the short term. The structural employment is expected to increase in the coming years partly due to reforms which gradually increase the age of retirement (Chart 1).

Short- and medium-term fiscal outlook

The Danish government budget balance has shown a surplus since 2017. The surplus is partly related to higher than usual revenues related to the financial markets in the form of high pension yield tax, high taxes related to income from shares and corporate tax. Particularly in 2019 the pension yield tax is expected to give very high revenue which is the main driver for the large government surplus this year. In the coming years the revenue from taxes related to the financial markets are expected to return to the normal level and the budget balance surplus is expected to be reduced significantly in 2020 and following years. The Danish government has an objective of budget balance in 2025 according to the latest project by DEC this objective is expected to be met with the current policy.

Long-term fiscal outlook

The long-term projections of the Danish economy focus on the public finances and are used to evaluate if Danish fiscal policy is sustainable taking into account the policy which is already agreed upon and demographic developments. From 2025 to 2040 the Danish public finances are forecast to remain close to balance due to an ageing population. After 2040 the demographic headwind is disappearing and the Danish public finances are expected to permanently improve to a significant surplus (Chart 3). This is among other things the result of increases in the retirement age. In DEC's latest long term projections, Danish fiscal policy is overly sustainable with a sustainability indicator (S2) of 1.8 per cent of GDP.

Fiscal framework and national fiscal rules

The Danish Economic Council concludes that the latest forecasts of the Danish economy from October 2019 show the government finances to be in accordance with the national fiscal framework which is within the rules set out in the fiscal compact. The government balance is expected to return to a slight deficit in the coming years but is forecasted to have a large safety margin to the 3 per cent deficit criteria. The structural balance is forecasted to be close to balance. Hence it is expected to keep a distance to the maximal allowed deficit of 0.5 per cent of GDP in the Danish budget law. There are no sustainability problems for the Danish public finances in the long run and the gross Danish debt is forecasted to remain significantly lower than 60 percent of GDP.

Chart 1: Employment

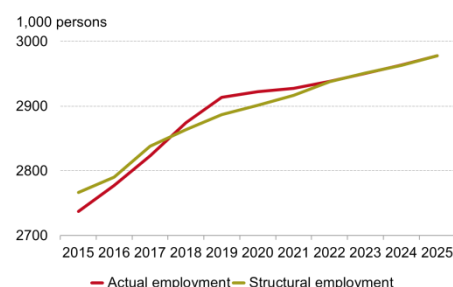


Chart 2: Actual and structural balance

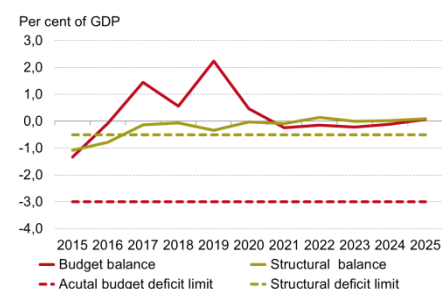
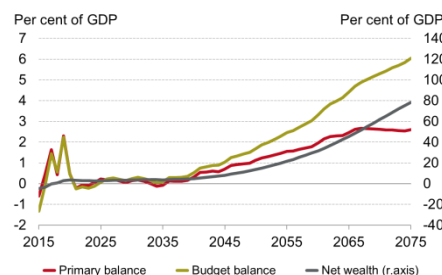


Chart 3: Budget balance and net liabilities



Key indicators

| | | 2018 | 2019 f | 2020 f | 2021 f | 2022 f | 2025 f | Source |
|----------------------------------|------------|------|--------|--------|--------|--------|-------------------|--------|
| Real GDP growth rate | [% y-to-y] | 1,5 | 2,0 | 1,3 | 1,6 | 2,0 | 1,8 ¹⁾ | 1 |
| Output Gap | [%] | -0,1 | 0,3 | 0,1 | 0,2 | 0,1 | 0,0 | 1 |
| Employment Gap | [% of GDP] | 0,4 | 0,9 | 0,7 | 0,4 | 0,0 | 0,0 | 1 |
| GG balance - DEC est. | [% of GDP] | 0,6 | 2,2, | 0,5 | -0,2 | -0,1 | 0,1 | 1 |
| GG balance - ME est. | [% of GDP] | 0,6 | 1,9 | 0,4 | -0,1 | -0,1 | 0,0 | 2 |
| GG structural balance - DEC est. | [% of GDP] | -0,1 | -0,3 | 0,0 | -0,1 | 0,1 | 0,1 | 1 |
| GG structural balance - ME est. | [% of GDP] | 0,2 | -0,1 | -0,1 | 0,3 | 0,4 | 0,0 | 2 |
| GG debt - DEC est. | [% y-to-y] | 34 | 33 | 35 | 36 | 38 | 43 | 1 |

Sources:

1 - 'Danish Economy, Autumn 2019, Danish Economic Councils, October 2019;

2 - 'Opdateret 2025-forløb - Grundlag for udgiftslofter 2023', Danish Ministry Finance, October 2019

f - forecast

1) 2023-25 average

Key messages:

- Growth in the economy and in tax revenue is expected to slow in 2020
- The structural deficit must be improved by at least 0.5 percentage point per year until structural balance is restored
- Changes to the national fiscal framework are expected in the years ahead

Macroeconomic outlook

Economic growth in 2019 is expected to be 3–3.5%, down from 4.8% in 2018. The latest forecast of the Ministry of Finance expects real GDP growth will slow to 2.2% in 2020 (see Chart 1). Even so, the output gap will remain positive in the coming years (see Chart 2). Weaker economic growth will also reduce the growth of tax receipts in the state budget.

The Ministry's macroeconomic forecast was endorsed by the Fiscal Council. The Fiscal Council considered though that there is a risk that geopolitical and foreign trade tensions may have more of an effect than was assumed, and this could lead to economic growth being slower than forecast.

Fiscal outlook

The structural deficit in 2018 was larger than expected, at 1.8% of GDP according to the latest estimate by the Ministry. This triggered the correction mechanism in the national fiscal rule, which requires that structural balance must be restored by decreasing the structural deficit by at least 0.5 percentage point each year. The government has announced that structural balance will be achieved again in 2022, despite the Fiscal Council recommending that it target a more rapid improvement given the favourable cyclical conditions. Under current projections, the general government budgetary position will remain in sizable structural deficit in 2019 and 2020 (see Chart 3).

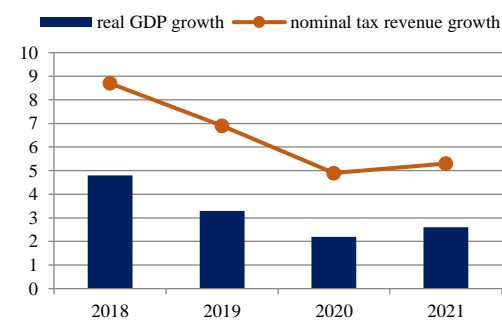
After substantial changes to the income tax system and to various excise duties in recent years, no major tax reforms have been announced for the upcoming years.

Fiscal framework and national fiscal rules

The national fiscal framework, which was last amended in 2017, requires that once structural balance has been achieved, structural surpluses should be planned to compensate for the earlier deficits that were larger than permitted. However, the government has announced that the national fiscal rule will be changed again before 2022 to avoid the need to plan for structural surpluses. The government's intention is to return to a requirement of annual structural balance, as before 2017.

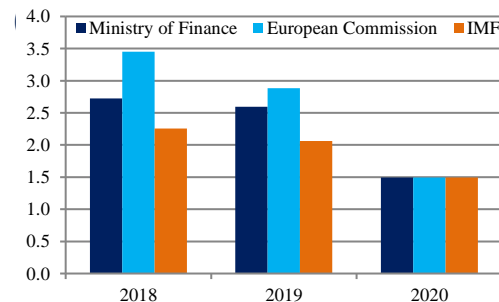
The planned changes to the fiscal framework would mean changing the fiscal rule for the second time since the structural balance requirement was introduced in 2014. The Fiscal Council believes that frequent changes to the fiscal rules harm the credibility of Estonian fiscal policy.

Chart 1: Growth in the economy and tax revenues (% y-o-y)



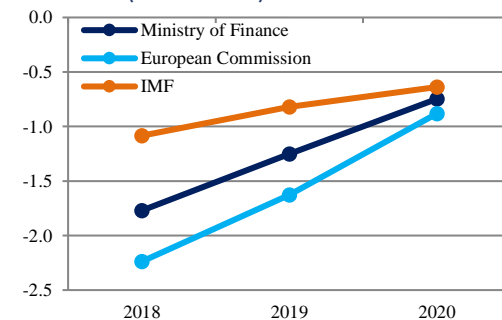
Source: Ministry of Finance

Chart 2: Estimates of the output gap



Sources: Ministry of Finance, European Commission, IMF

Chart 3: Estimates of the structural balance (% of GDP)



Sources: Ministry of Finance, European Commission, IMF

Key indicators

| | | 2018 | 2019 f | 2020 f | 2021 f | 2022 f | 2023 f |
|-----------------------|-----------------|------|--------|--------|--------|--------|--------|
| Real GDP growth | [% y-o-y] | 4.8 | 3.3 | 2.2 | 2.6 | 2.5 | 2.3 |
| Output gap | [% of pot. GDP] | 2.7 | 2.6 | 1.5 | 1.0 | 0.6 | 0.1 |
| GG nominal balance | [% of GDP] | -0.6 | -0.1 | 0.0 | 0.2 | 0.3 | 0.0 |
| GG structural balance | [% of GDP] | -1.8 | -1.3 | -0.8 | -0.3 | 0.0 | 0.0 |
| GG debt | [% of GDP] | 8.4 | 8.9 | 8.0 | 7.7 | 7.2 | 6.7 |

Source: Ministry of Finance (Summer forecast 2019, State Budget 2020)

Key messages:

- Finland faces economic slowdown with increased government deficit and shrinking working age population.
- According to no policy change scenario, deficit targets set for the government period will not be met and decreasing trend in general government debt is expected to reverse.
- Risk that Finland fails to comply with SGP rules in 2020 regarding general government structural balance and expenditure benchmark

Macroeconomic outlook

Based on the Winter forecast of the Ministry of Finance, the annual GDP growth is expected to slow down from 1.6% in 2019 to 1.0% in 2020, mainly due to a decrease in construction. According to the latest estimates, the output gap closed in 2017 and the GDP has remained close to the potential in past years. Also, the unemployment rate is forecast to remain close to its equilibrium level just above 6%. In the medium-run the economic growth is forecast to slow down below 1% annual rate due to decreasing working age population. Main risks surrounding the economic projections are associated with the developments in the global economy. The main domestic risks, both negative and positive, are associated with investment outlook and with wage negotiations.

Short-term fiscal outlook

The general government net lending is projected to worsen by 0.4 percentage points to -1.4% to GDP in 2020. The worsening is due to both one-off and permanent expenditure increases in central government, by 0.5 percentage points, which are partly offset by decrease in the local government deficit. As the cyclical situation is forecast to worsen slightly in 2020-2021, the structural balance decreases further by 0.2 percentage points to 1.4% in 2020.

Medium-term fiscal outlook

General government debt-to-GDP has been declining since 2015 and is below the 60% threshold since 2018. Based on the forecast of the Ministry of Finance it is projected to remain below but close to the threshold in the near future and cross it again by 2022. However, there is a risk that this can happen much earlier as the 60% threshold is only 1.5 pp above the forecast for 2019 (Chart 3).

A closer look at the composition of general government debt reveals the following: while central government debt was strongly increased after the financial crisis and moderately decreased in recent years, local government debt does not show much fluctuation, only a slow and almost steady increase. This development is expected to continue as one of its main drivers is the increase in demand for health care induced by population aging.

Fiscal framework and national fiscal rules

According to the ex-ante assessment by the National Audit Office (NAoF), Finland will deviate from the structural balance rule of the preventive arm of the Stability and Growth Pact and from the expenditure benchmark in 2019, but the deviations will not be significant. As regards 2020, there is a risk that the deviations from the rules will be significant.

The Medium-Term Objective (MTO) set by the General Government Fiscal Plan for the general government structural balance relative to GDP is -0.5 per cent. However, in light of the forecast by the Ministry of Finance, these fiscal position targets will not be achieved - the general government structural balance will be -1.3 % relative to GDP in 2023.

Chart 1: Economic growth slowing down

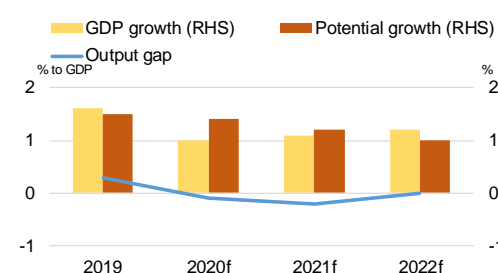


Chart 2: Net borrowing increases

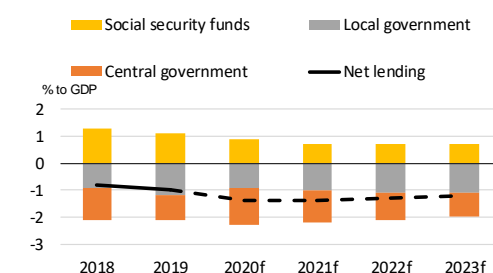
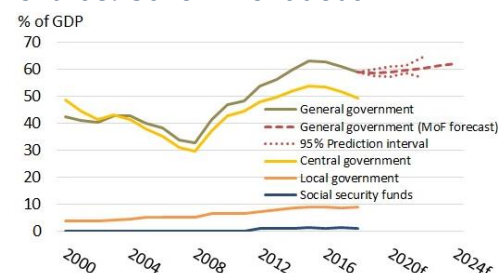


Chart 3: Government debt



Key indicators

| | | 2018 | 2019 f | 2020 f | 2021 f | 2022 f | 2023 f | Source/notes |
|----------------------------------|------------|------|--------|--------|--------|--------|--------|--------------|
| Real GDP growth rate | [% y-to-y] | 1.7 | 1.6 | 1 | 1.1 | 1.2 | 1 | 2 |
| Output Gap | [%] | 0.2 | 0.3 | -0.1 | -0.2 | 0 | 0 | 2 |
| GG balance - target | [% of GDP] | | -1.0 | -1.4 | -1 | -0.6 | 0 | 1 |
| GG balance - MoF est. | [% of GDP] | -1.2 | -0.9 | -1.4 | -1.2 | -1 | -0.9 | 2 |
| GG debt - target | [% of GDP] | | 58.8 | 58.8 | 58.7 | 58.6 | 58.1 | 1 |
| GG debt - MoF est. | [% of GDP] | 59.0 | 58.5 | 58.8 | 59.7 | 60.4 | 61.2 | 2 |
| GG structural balance - MoF est. | [% of GDP] | -0.9 | -1.2 | -1.4 | -1.3 | -1.3 | -1.3 | 2 |
| Real GG expenditure growth | [% y-to-y] | 0.3 | 0.8 | 1.7 | 0.6 | 0.7 | | 3 |

Sources/notes:
 1 - GG Fiscal Plan
 2 - Ministry of Finance, Dec. forecast
 3 - Economic Policy Council f - forecast/provisional estimate

Key messages:

- GDP growth forecast in the Draft Budget Law is 1.4% for 2019 and 1.3% for 2020. The High Council considers that this forecast is achievable for 2019 and plausible for 2020.
- Overall, the High Council considers that the nominal general government balance forecast for 2019 and 2020 (-3.1 and -2.2 points of GDP respectively) presented in the Draft Budget Law is plausible.
- The High Council notes that the structural balance path presented in the Draft Budget Law deviates from the trajectory of the 2018 public finance programming law which could lead to the triggering next spring of the "correction mechanism" established by the Organic Law of 17 December 2012.

Macroeconomic outlook

GDP growth forecast for 2019 in the Draft Budget Law (DBL) for 2020 presented in September 2019 was 1.4%. The High Council considered (at the time of the release of the DBL) that this forecast was 'achievable'. Given the growth estimate for the third quarter (+0.3%), this forecast is still achievable but before potential revisions of the available quarterly national accounts, assumes an acceleration in activity in the fourth quarter (growth of at least 0.5%). GDP growth forecast for 2020 by the Government is 1.3% in the DBL. In September, the High Council considered that this forecast for 2019 was 'plausible' in its opinion on the Draft Budget Law. The recent business cycle indicators does not change this assessment. However, the recent release of monthly prices indicators and the evolution of oil prices suggest that inflation in 2020 could be higher than the one forecasted in the DBL.

Short-term fiscal outlook

General Government deficit forecast is 3.1 points of GDP in 2019. The High Council notes that tax revenues may be somewhat higher than expected by the Government. On the other hand, it notes the existence of a risk on local authorities' expenditure, mainly on investment. In total, the High Council considered that the forecasts of total government revenue, expenditure and balance for 2019 are plausible in the light of the information available to it in late October. The release of monthly data on public finances since then does not change substantially this assessment.

Medium-term fiscal outlook

The Draft Budget Law for 2020 forecast a nominal deficit of 3.1 points of GDP in 2019 and 2.2 points of GDP in 2020. The Economic and Social Report associated to the DBL indicates that nominal deficit should reach 1.8% in 2021 and 1.5% in 2022. However, besides the expected slowdown in local authorities' investment, no measures have been identified to explain the effort to contain public expenditures at this horizon.

Fiscal framework and national fiscal rules

The Government forecasts a 0.1 point of GDP reduction in the structural deficit for 2019, which would amount to 2.2 points of GDP. In relation to the trajectory defined in the public finance programming law for 2018 to 2022 (LPFP), the structural balance gap would be -0.1 points in 2018 and -0.3 points in 2019 respectively. The High Council indicates that such a deviation is very close to the threshold triggering the correction mechanism established by the 2012 Organic Law (-0.25 points on average over two years). Should the threshold be exceeded, then the Government would be required to present the measures it intends to take to bring public finances back on this trajectory. It could also choose to update the multiannual programming by presenting a new Programming Law. In 2020, the structural deficit would still be 2.2 points of GDP, compared with 1.6 points in the 2018 LPFP. The High Council therefore notes that the Government submits an introductory article of the budget bill, which deviates significantly from the trajectory of the 2018 public finance programming law. According to the HCFP, such a choice weakens the scope of the multi-year programming exercise in terms of public finances.

Key indicators

| | | | 2016 | 2017 | 2018 | 2019 f | 2020 f | Source/ notes |
|--------------------|----------|------------|------|------|------|--------|--------|------------------|
| Real GDP growth | MoF Est. | [% y-to-y] | 1.1 | 2.3 | 1.7 | 1.4 | 1.3 | 1 |
| | EC Est. | [% y-to-y] | 1.1 | 2.3 | 1.7 | 1.3 | 1.3 | 2 |
| Output Gap | MoF Est. | [% GDP] | -1.5 | -0.5 | -0.1 | 0.0 | 0.1 | 1 |
| | EC Est. | [% GDP] | -1.3 | -0.1 | 0.5 | 0.7 | 0.8 | 2 |
| GG balance | MoF Est. | [% GDP] | -3.5 | -2.8 | -2.5 | -3.1 | -2.2 | 1 |
| | EC Est. | [% GDP] | -3.5 | -2.8 | -2.5 | -3.1 | -2.2 | 2 |
| Structural balance | MoF Est. | [% GDP] | -2.6 | -2.4 | -2.3 | -2.2 | -2.2 | 1 |
| | EC Est. | [% GDP] | -2.7 | -2.7 | -2.7 | -2.7 | -2.6 | 2 |
| GG Debt | MoF Est. | [% GDP] | 98.0 | 98.4 | 98.4 | 98.8 | 98.7 | 1 |
| | EC Est. | [% GDP] | 98.0 | 98.4 | 98.4 | 98.9 | 98.9 | 2 |

Chart 1: Business climate in France

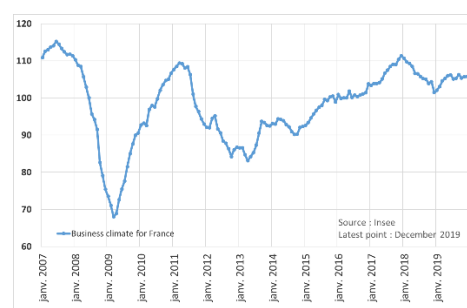


Chart 2: Decomposition of public balance

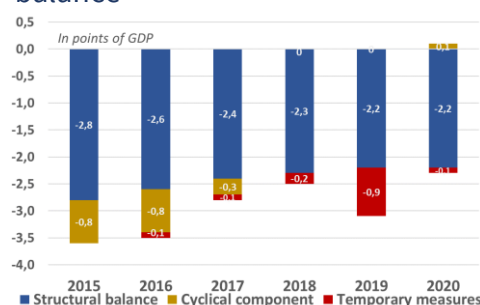
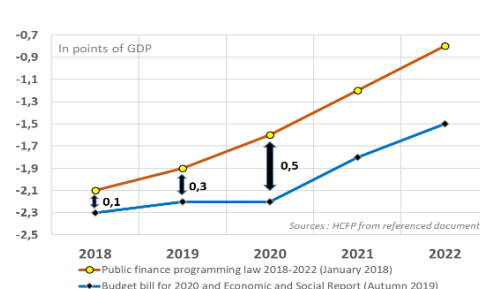


Chart 3: Structural balance paths



Sources:
1 – Ministry of Economy and
Finances, Draft Budget Law,
September 2019
2 – EC Autumn economic
forecast, November 2019
f – forecast

Key messages:

- Over the next years the German economy is forecast to show weak growth at a closed output gap.
- The surplus of the general government is projected to be quickly dissipated within two years.
- Germany is predicted to meet the upper limit for the structural deficit (MTO) with a safety margin until 2023.

Macroeconomic outlook

After 0.5 % in 2019, the German economy is predicted to grow by around 1.0 % in 2020. This increase is partly due to a calendar effect with a higher number of working days. Growth will remain constant at around 1 % until 2023. Beginning in 2022 potential output growth will weaken, primarily due to demographic trends. From the year 2020, the economy is assessed as having a roughly normal level of capacity utilisation.

Short-term fiscal outlook

The budget surplus of the general government is forecast to decline from 1½ % of GDP in 2019 to ½ % in 2020. The structural surplus in 2019 is expected at about 1¼ % of GDP and will remain at ½ % in the next year. The debt-to-GDP ratio will shrink to about 60 % in 2019 and is expected to decline further in 2020.

Medium-term fiscal outlook

The general government budget surplus is projected to vanish completely by the year 2021. The reduction is, above all, a consequence of projected fiscal easing. The expansionary fiscal stance will lead to a substantially lower structural surplus especially as of the year 2020. The surplus will remain within a bandwidth of ¼ % and ½ % of GDP in the medium-term until the year 2023. The Maastricht debt-to-GDP ratio will decline further.

Current projections of the structural budget balance

| in % of GDP or potential output | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------------|------|------|------|------|------|------|
| Stability Council (Nov) | 1.3 | 1¼ | ½ | ¼ | ¼ | ½ |
| Stability Council (Jun) | 1.3 | ¾ | ½ | ¼ | ¼ | ½ |
| OECD (Nov) | 1.3 | 0.7 | 0.4 | 0.0 | | |
| European Commission (Nov) | 1.4 | 1.1 | 0.7 | 0.5 | | |
| GCEE (Nov) | 1.3 | 0.8 | 0.2 | | | |
| IMF (Oct) | 1.4 | 0.9 | 1.0 | 1.0 | 0.7 | 1.0 |
| Joint Economic Forecast (Oct) | 1.1 | 1.3 | 0.6 | 0.0 | | |

Fiscal framework and national fiscal rules

Currently, the fiscal policy debate in Germany focuses on the target of achieving a balanced federal budget, referred to as the “black zero”. Unlike the actual fiscal rules, which refer to the national accounts, this target only refers to a narrow definition of the budget. Moreover, the mere budget balance does not account for the cyclical situation and, therefore, would undermine the automatic stabilisers. Hence, the advisory board recommends to focus on compliance with the upper limit of the structural general government budget deficit in accordance with Section 51 (2) of the German Budgetary Principles Act (HGrG) and with the medium-term objective defined under the European fiscal compact. Following a policy of a balanced budget might conceal a structural surplus in some years and a structural deficit in other years.

Key indicators

| | | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Source/ notes |
|----------------------------------|--------------------|------|------|------|------|------|------|------------------|
| GDP, price adjusted | [% y-to-y] | 1.5 | 0.5 | 1.0 | 1.3 | 1.1 | 1.1 | 1 |
| Potential output, price adjusted | [% y-to-y] | 1.5 | 1.4 | 1.5 | 1.5 | 1.2 | 1.0 | 1 |
| Output gap | [% of pot. output] | 1.3 | 0.4 | -0.1 | -0.2 | -0.3 | -0.2 | 1 |
| GG budget balance | [% of GDP] | 1.9 | 1½ | ½ | 0 | 0 | ½ | 2 |
| GG cyclical component | [% of GDP] | 0.7 | 0.2 | 0.0 | -0.1 | -0.2 | -0.1 | 3 |
| GG structural balance | [% of GDP] | 1.3 | 1¼ | ½ | ¼ | ¼ | ½ | 2 |
| Debt-to-GDP ratio (Maastricht) | [% of GDP] | 61.9 | 59¾ | 57¾ | 56¾ | 54¾ | 52¾ | 3 |

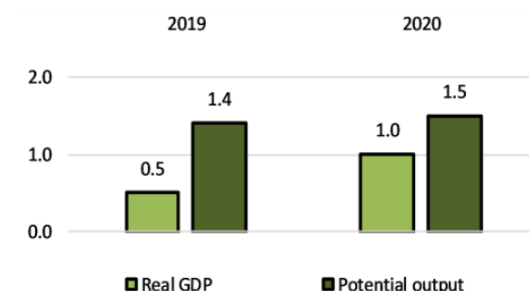
Sources:

- Autumn projection 2019 of the federal government.
- Twelfth statement of the Independent Advisory Board of the Stability Council.
- German Draft Budgetary Plan 2020.

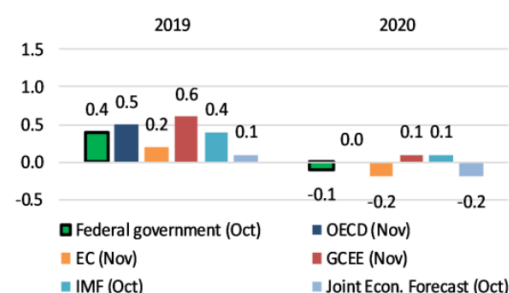
Notes:

The values for the balances and the debt-to-GDP ratio are rounded to a quarter per cent for the projection years starting in 2019.

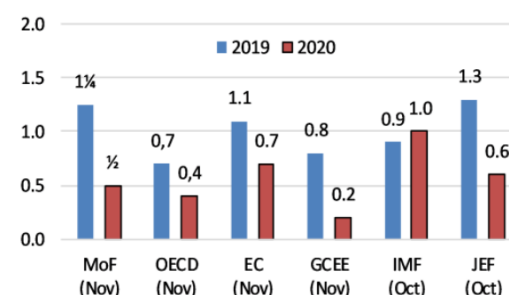
Real GDP and potential output (% y-to-y)



Output gap (% of potential output)



Structural balance (% of GDP)



Key messages:

- The 2019 fiscal target, under the enhanced surveillance framework (i.e., primary surplus of 3.5% of GDP) will be achieved, while marginal overshooting is likely.
- The 3.5% target for primary surplus in 2020 is achievable under certain preconditions, i.e. the materialization of the growth prospects, further combating tax evasion and the broadening of the tax base, possible retrospective payments due to court decisions to be fiscally manageable.
- The projections for GDP growth, based on MoF estimates, are 2% for 2019 and 2.8% for 2020.
- Structural primary balance projected to decrease amid output gap closing.

Macroeconomic outlook

Regarding macroeconomic developments, the growth rate target of 2% for 2019 is within the Hellenic Fiscal Council's forecasts interval and although being ambitious it can be achieved. The forecasts of the European Commission and other independent institutions converge to the view that GDP growth for 2020 will range between +1.8% and +2.3%. HFC is more optimistic due to the positive revision of GDP growth for 2019. Thus, the range of GDP growth according to HFC projections is 2.3%-2.9%. Consequently, the estimate of a 2.8% growth rate by the MoF, is assessed by the Council as optimistic though achievable, under the precondition that several downside risks (for instance a slump in EU's growth rate) will not occur. The main driving force behind GDP growth is projected to be domestic demand, with gross fixed capital formation (primarily) and private consumption (secondarily) being the components that are estimated to have the largest impact (Chart 1). The unemployment rate remains on a declining path and further improvement in the labour market conditions seems realistic under the assumption of no major distraction in labour relations and in broad economic developments.

Short-term fiscal outlook

During the first ten months of 2019, fiscal policy posted a satisfactory performance being executed within the budgetary targets of the medium-term fiscal strategy (MTFS) 2019-2022. Both the current fiscal performance and the fiscal projections by the international institutions point to the estimation that the agreed primary surplus target of 3.5% of GDP in 2019 will be overachieved, the fifth year in a row.

Medium-term fiscal outlook

Structural primary balance projected to decrease amid output gap closing see (Chart 2). Based on the latest AMECO series, general government's structural primary balance is expected to fall from 8.4% in 2018 to 6.0% in 2019 and further to 4.5% in 2020. This partly reflects a gradual decline in the cyclically adjusted component of the balance, which is due to the closing of economy's negative output gap by more than 2 percentage points each year. These trends in output gap reflect more and more the projected strengthening of actual GDP growth, rather than further decreases in potential output. The latter was considered a major force driving early output gap movements at least since 2010. In fact, based on HFC calculations, keeping potential output constant at its 2010 levels, it turns out that the fall in output gap during the period 2010-2016 and the resulting fiscal effort (change in structural balance) were both much stronger.

Fiscal framework and national fiscal rules

The post-program framework for Greece was activated after the successful completion of the third adjustment programme in August 2018 and the country was placed under enhanced surveillance, according to which Greece is committed to a primary surplus target of 3.5% until 2022. At the same time Greece was fully integrated within the procedures and modalities of the European Semester and has committed itself to a Medium-Term Objective (MTO) that cannot be lower than a (structural) deficit of 0.5% of GDP. The minimum MTO for Greece for the period 2020-2022, is equal to a structural surplus of 0.25% of GDP which has already been reached. Greek public debt remains very high, though it is expected to follow a downward trajectory the coming years (Chart 3).

Key indicators

| | | 2018 | 2019 f | 2020 f | 2021 f | Source |
|-------------------------------|---------------|-------|--------|--------|--------|--------|
| Real GDP growth rate | [% y-to-y] | 1.9 | 2.0 | 2.8 | n.a. | 1, 2 |
| Output Gap | [% of p. GDP] | -6.7 | -4.6 | -2.2 | -0.4 | 3 |
| GG primary balance – target | [% of GDP] | 3.5 | 3.5 | 3.5 | 3.5 | 1, 3 |
| GG primary balance – MoF est. | [% of GDP] | 4.16 | 3.73 | n.a. | n.a. | 1 |
| GG debt - MoF est. | [% of GDP] | 181.2 | 173.3 | 167.0 | n.a. | 1 |
| GG debt - EC est. | [% of GDP] | 181.2 | 175.2 | 169.3 | 163.1 | 3 |
| GG str. balance - EC est. | [% of p. GDP] | 5.1 | 3 | 1.8 | 1.1 | 3 |
| Adjusted real GG expenditure | [% of p. GDP] | 43.3 | 43.9 | 44.1 | 44.1 | 3 |
| Discr. revenue measures | [% of GDP] | 0.2 | -0.2 | -0.9 | -0.3 | 3 |

Chart 1: Growth rates of GDP and its components (MoF est.)

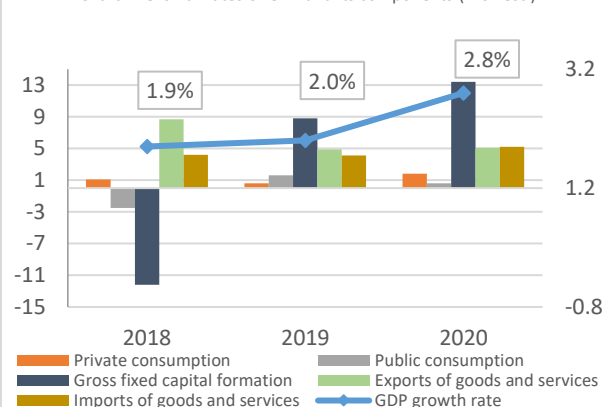


Chart 2: Fiscal stance (EC est.)

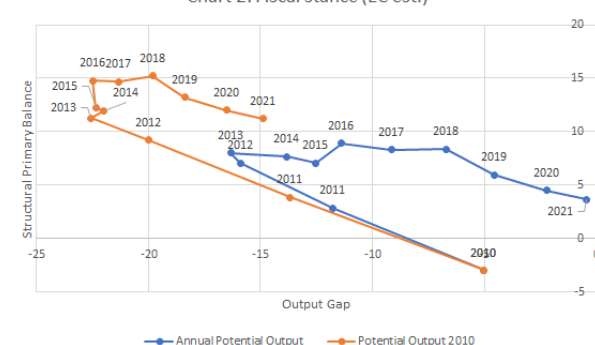
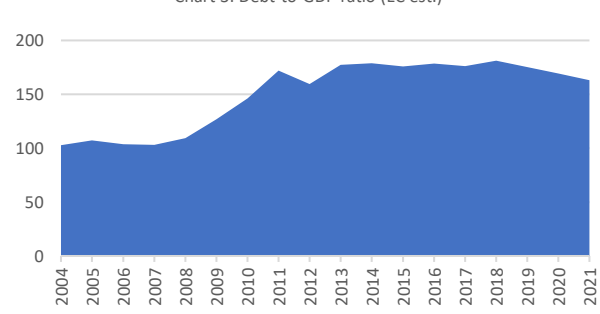


Chart 3: Debt-to-GDP ratio (EC est.)



Sources:

1. Ministry of Finance (MoF)
2. Hellenic Statistical Authority
3. European Commission (EC), AMECO

f – forecast, GG – general government

Key messages:

- The government's deficit target for 2019 is likely to be slightly exceeded; the planned 2020 deficit reduction is on track. However planned but unknown measures to support the economy could deteriorate the public balance still this year.
- Government debt declined sharply to 70.2% of GDP by end-2018. Debt could have reach 67% of GDP by end-2019, with a further decline for this year.

Macroeconomic outlook

After a 5.1% growth in 2018, the economy could have performed remarkably this year: the growth rate most likely turned out at 4.9%, above initial expectations. GDP growth was broad-based, supported by double-digit boom in investments and wages as well as a vivid expansion in household consumption. Growth is expected to weaken to 3.3% this year, driven by a sharp slowdown in investments growth and weakening foreign demand.

Short-term fiscal outlook

Strong revenue collection, on account of a favourable cyclical position of the economy and tax-whitening measures, has supported the budget in 2018 and in 2019. Overall, the 2018 ESA deficit reached 2.3% of GDP, undershooting the target by 0.1 ppts.: both robust revenues growth and the contained increase in expenditure contributed to the outcome.

Despite a favourable base year, we expect the 2019 slightly above on target, at 2.0% of GDP, due to an EU related financial correction in the magnitude of 0.2-0.3 ppts of GDP and buoyant end-year spending. Savings are expected in most expenditure items to GDP with the exception of investments and other expenditures, while on the revenue side, VAT and other revenues (related to EU transfers) could perform well. Current taxes could remain relatively stable, while social security contributions (SSC) decrease if compared to GDP on account of cuts in the contribution rate. The 2020 budget envisages an ambitious 1% deficit target. With an underlying deficit around 1.6% for 2019, this seems achievable despite the fact that the full-year effect of the 2019 July SSC cut appears in the figures, and we assume a further one to come this July. There will be savings on financial transfers, interest expenditures, however the key driver behind the deficit improvement will be falling government investment.

Gross debt could have reached 67% of GDP in 2019, substantially declining from 70.2% a year before as the EU related cash deficit come almost balanced last year. As we expect the latter to remain in close to balance this year as well, and foresee a low ESA deficit, this helps quick debt reduction to around 64.3% of GDP by 2020 year-end.

Fiscal framework and national fiscal rules

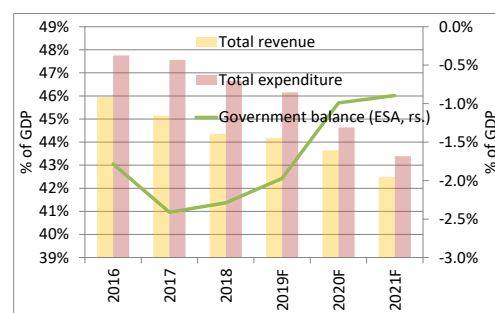
The expected path of debt reduction is in line with both national and EU level requirements, according to the Fiscal Council. The Council issued in its latest assessment to the draft 2020 budget law, stressing that the budget plan was realistic, although indicated that the macroeconomic assumptions underpinning the draft were rather optimistic, and further whitening measures needed to be substantiated. It also pointed out the importance of the unusually large, 1% of GDP budgetary reserves to cover potential risks. In addition, as mentioned above, since July last year, better-than-expected macroeconomic data supports ambitious revenue assumptions of the budget.

In May 2018, the EU Council issued a warning on a significant deviation of the 2018 budget deficit from the MTO. In December 2018, it EC found that Hungary did not take effective action to comply with the recommendation. The Commission suggested newer recommendations expected to be adopted by the Council in July 2019. The Commission also suggested Hungary should follow structural adjustment of 1.0% of GDP for 2019 and 0.75% of GDP in 2020. In its' most recent assessment from November, the EC concluded that in the 2019 budget the fiscal effort fell short of the proposed adjustment, while the planned 2020 budget is overall consistent with it.

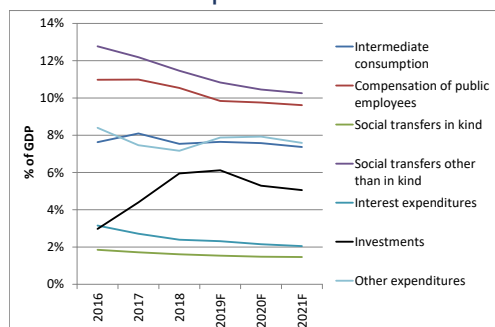
Key indicators

| | | 2016 | 2017 | 2018 | 2019 f | 2020 f | 2021 f | Sources |
|------------------------------------|------------|------|------|------|--------|--------|--------|---------|
| Real GDP growth rate | [% y-to-y] | 2.2 | 4.3 | 5.1 | 4.9 | 4.0 | 4.0 | 1a |
| Output Gap - FISK estimate | [%] | -0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.1 | 1b |
| GG balance - targets MOF | [% of GDP] | -1.6 | -2.2 | -2.0 | -1.8 | -1.0 | -0.7 | 1a |
| GG balance - FISK | [% of GDP] | -1.8 | -2.4 | -2.3 | -2.0 | -1.0 | -0.9 | 2 |
| GG debt - MoF estimate | [% of GDP] | 75.5 | 72.9 | 70.2 | 67.0 | 66.3 | 62.4 | 1a |
| GG debt - FISK estimate | [% of GDP] | 75.5 | 72.9 | 70.2 | 67.0 | 64.3 | 62.8 | 2 |
| GG structural balance - FISK est. | [% of GDP] | -2.0 | -3.7 | -3.8 | -3.3 | -2.1 | -1.5 | 3 |
| Adapted fiscal rule expend. growth | [% y-to-y] | -4.7 | 2.9 | 5.1 | 3.6 | -1.5 | 2.2 | 2,3 |
| Discretionary revenue measures | [% of GDP] | -0.5 | -1.6 | -0.3 | -0.2 | -0.4 | 0.0 | 2,3 |

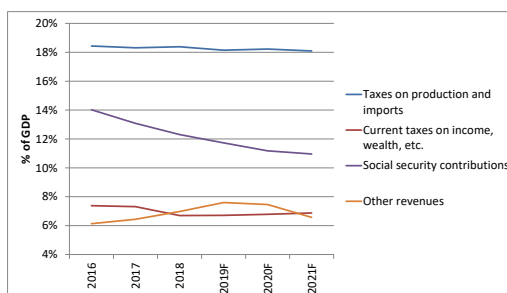
Government expenditure, revenue and balance



Government expenditures



Government revenues



Sources:

1a-Ministry of Finance, Hungary, December 2019 forecast

1b- Convergence Report 2019, Hungary

2 - CBR

3- European Commission

Key messages:

- Near-term risks related to a hard Brexit have receded, but the macroeconomic outlook remains unusually uncertain.
- External risks remain, including adverse trade tensions, while the domestic economy risks overheating.
- Ireland's government debt burden is the sixth highest in the OECD, and large tailwinds, including surges in corporation tax, have not been used to improve the budget balance.
- The fiscal position would have been stronger had the Government not allowed spending to drift upwards in recent years.

Macroeconomic outlook

Unusual uncertainty clouded the outlook for the Irish economy going into October, and the Government set the budget on the basis of a disorderly Brexit scenario, which was appropriate. Two starkly different scenarios for the near future can be thought of: (1) the recent strong growth in the domestic economy continues such that it risks overheating near term; and (2) a severe external shock hits the economy leading to a slowdown or outright recession. Growth in US and Euro Area activity has slowed, and the outlook for global growth has been downgraded. This comes amid rising trade tensions, including between the US and China and the EU.

Short-term fiscal outlook

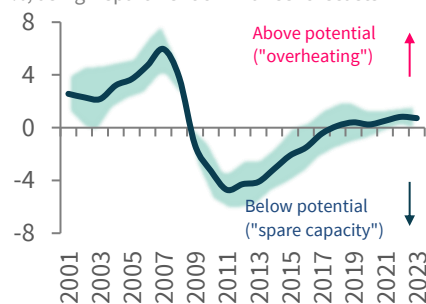
Repeating the pattern of health overruns in recent years, an additional €0.4 billion was spent last year despite an extra €1.1 billion being allocated by the Government in the 2019 budget – an increase of 6.6 per cent. This has weakened the structural primary balance, based on the Department of Finance's preferred estimate of the output gap. The Fiscal Council estimates that €2–6 billion of corporation tax receipts is "excess", or beyond what would be projected given the economy's underlying performance and based on historical or international norms. Excluding these excess receipts, the structural primary balance is weaker again.

Medium-term fiscal outlook

The Government's medium-term spending forecasts are more realistic than they have been recently. Yet, they still rely on arbitrary technical assumptions for spending rather than Government plans or realistic bottom-up expenditure forecasts. Medium-term spending ceilings have been repeatedly revised up as the economy has performed better than expected. This risk would escalate if overheating takes place, and reliance on excess corporation tax receipts leaves the Government vulnerable to changes in the global tax environment, including the OECD's Base Erosion and Profit Shifting initiative.

Fiscal Council's output gap estimates

%, using Department of Finance forecasts



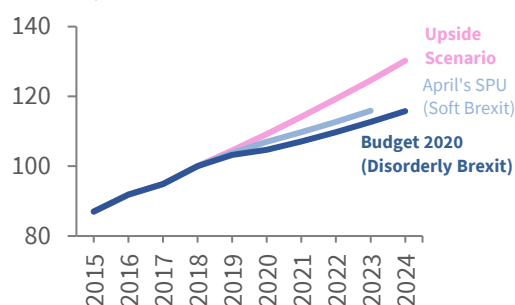
Fiscal framework and national fiscal rules

Ireland looks likely to have complied with EU fiscal rules by meeting the expenditure benchmark for 2019, despite being projected to breach structural balance requirements by 0.1 per cent of GDP. The Council's "principles-based approach" also suggests the rules were complied with in 2019, but not for the two-year average for 2018 and 2019.

The Government needs reform its medium-term budgeting by: (1) using the rainy day fund and a prudence account to save temporary receipts, including corporation tax; (2) guiding net spending with sustainable growth rates informed by alternative estimates of potential output; and (3) establishing meaningful debt ratio targets.

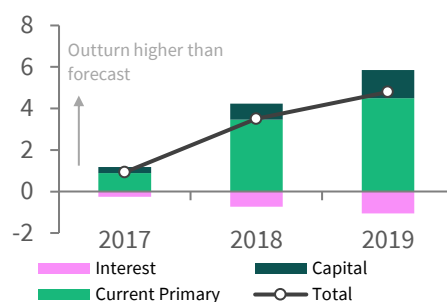
The outlook is unusually uncertain

Real GDP, 2018 = 100



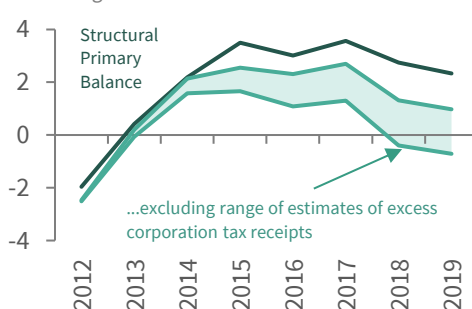
Current spending has driven overruns

€ billion (relative to forecasts)



The structural balance has weakened

Percentage of GNI*



Key indicators

| Real GDP growth rate | [% y-to-y] | 3.7 | 8.1 | 8.2 | 5.5 | 0.7 | 2.5 | 1 |
|---------------------------------|-------------|-------|-------|-------|-------|------|------|---|
| Output Gap | [%] | -2.4 | -2.5 | -0.2 | 1.0 | -0.3 | 0.55 | 2 |
| GG balance | [% of GNI*] | -1.1 | -0.5 | 0.1 | 0.3 | -1.0 | -0.3 | 1 |
| GG balance | [% of GDP] | -0.7 | -0.3 | 0.1 | 0.2 | -0.6 | -0.2 | 1 |
| GG debt | [% of GNI*] | 114.3 | 109.5 | 104.3 | 100.2 | 97.4 | 97.7 | 1 |
| GG debt | [% of GDP] | 73.9 | 67.8 | 63.6 | 59.3 | 56.5 | 56.3 | 1 |
| GG structural balance (DoF) | [% of GDP] | 0.6 | 1.2 | 0.1 | -0.4 | -0.2 | -0.5 | 2 |
| Real net policy spending growth | [% y-to-y] | 5.2 | 4.4 | 6.1 | 3.8 | 3.9 | 1.2 | 3 |
| Discretionary revenue measures | [% of GDP] | -0.3 | 0.0 | 0.3 | 0.3 | 0.3 | 0.0 | 1 |

Sources/notes:

1 – CSO and Department of Finance (DoF); GNI* is modified GNI.

2 – DoF preferred output gap estimate, used by the Fiscal Council in assessing compliance with domestic Budgetary Rule.

3 – Fiscal Council analysis: GG expenditure less one-off spending, interest, cyclical unemployment benefits, and adjusted for discretionary tax measures, deflated with HICP. f – forecast/provisional estimate

Key messages:

- The PBO endorsed the 2020 DBP macroeconomic policy scenario for 2019-20 but flagged major risks stemming from the international environment.
- The DBP projects no fiscal adjustment in nominal terms in 2020.
- The PBO flagged a risk of some deviation for the structural budget rule in 2019 and of a significant deviation in 2020.
- The PBO expects no compliance with the debt reduction rule in both 2019 and 2020-2021.

Macroeconomic outlook

The DBP envisages real GDP growing at 0.1 percent in 2019 and at 0.6 percent in 2020, mainly driven by domestic demand (Chart 1). The PBO validated the DBP macroeconomic policy forecasts for 2019-20, highlighting, however, the downside risks associated with both the fragile international context and the limited space for economic and monetary policy, should a global recession materialise.

Short-term fiscal outlook

The DBP projects the headline deficit rising to 2.2 percent of GDP in both 2019 and 2020 from 2.1 percent in 2018 (Chart 2). The DBP measures have an overall deficit-increasing impact of 0.9 percentage points of GDP in 2020 compared to the projections based on unchanged legislation, with most of the expansion planned on the revenue side. The main deficit-increasing measure is the repeal of the VAT hike legislated as a "budgetary safeguard clause" in 2020 and worth 1.3 percentage points of GDP, which is included in the Government projections based on unchanged legislation. The remaining DBP measures have an overall deficit-reducing impact of around 0.4 percentage points of GDP. The debt/GDP ratio is projected to peak in 2019 at 135.7 percent from 134.8 in 2018, mainly due to a worsening primary balance and weak real GDP growth, while in 2020 it is set to decrease at 135.2 percent, thanks mainly to stronger nominal GDP growth.

Medium-term fiscal outlook

In the DBP, the fiscal adjustment resumes in 2021 and 2022, with a fiscal effort in nominal terms of 0.4 percentage points each year. In structural terms, the annual adjustment is of 0.2 percent each year. The projected improvement in the headline deficit in 2021 and 2022 is fully determined by the increase in VAT rates (safeguard clauses), which have been repealed by the 2020 budget law only partially for 2021 and 2022. The PBO highlighted the uncertainty surrounding the medium-term scenario as the DBP does not provide any hints on how the Government will deal with the safeguard clauses, that in the past years have been systematically repealed. The debt/GDP ratio is forecast to further decline from 133.4 percent of GDP in 2021 to 131.4 percent in 2022. The PBO flagged the major risks affecting the DBP policy scenario, stemming from the global environment, with potential effects on GDP growth, and from financial market volatility, with effects on interest expenditure.

Fiscal framework and national fiscal rules

In structural terms, the 2020 DBP envisages an improvement in 2019, a deterioration in 2020 and a consolidation in 2021-22, mainly thanks to the VAT hikes legislated for 2021 and 2022. The PBO flagged a risk of some deviation in 2019 and of a significant deviation in 2020 from the adjustment path to the MTO, even considering the flexibility of 0.18 percent of GDP for 2019 and 0.2 percent of GDP for 2020 requested by the Government. In addition, the forecast growth in the expenditure aggregate for 2019 and 2020 is greater than the benchmark, indicating the risk of a significant deviation in both years, according to the PBO. Moreover, the PBO does not expect compliance with the numerical debt reduction rule either in 2019 or in 2020-22, despite the decline in the debt/GDP ratio after 2019. According to PBO simulations, without the VAT hike the debt ratio would decrease more gradually (Chart 3). The same is true with less favourable assumptions on growth.

Key indicators

| | | 2018 | 2019f | 2020f | 2021f | 2022f |
|---|-------------|-------|-------|-------|-------|-------|
| Real GDP | [% change] | 0,8 | 0,1 | 0,6 | 1,0 | 1,0 |
| GDP Deflator | [% change] | 0,9 | 0,9 | 1,3 | 1,7 | 1,7 |
| Output Gap | [% Pot-GDP] | -1,4 | -1,8 | -1,7 | -1,3 | -1,0 |
| GG balance | [% GDP] | -2,2 | -2,2 | -2,2 | -1,8 | -1,4 |
| Primary balance | [% GDP] | 1,5 | 1,3 | 1,1 | 1,3 | 1,6 |
| Structural balance | [% GDP] | -1,5 | -1,2 | -1,4 | -1,2 | -1,0 |
| GG debt | [% GDP] | 134,8 | 135,7 | 135,2 | 133,4 | 131,4 |
| Adjusted nominal GG expenditure net one-off | [% change] | 1,7 | 1,6 | 2,0 | N/A | N/A |
| Discretionary revenue measures net one-off | [% GDP] | 0,4 | 0,1 | 0,1 | N/A | N/A |

Chart 1: Real GDP Growth [% GDP]

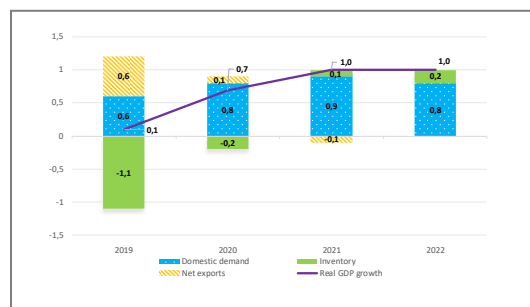


Chart 2: Government Balance [% GDP]

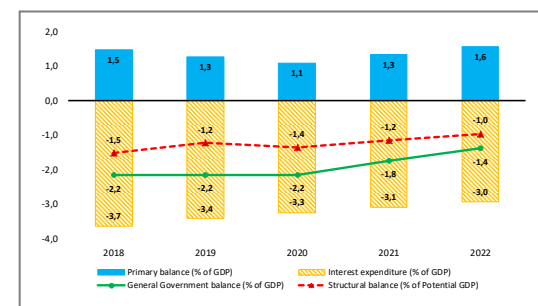
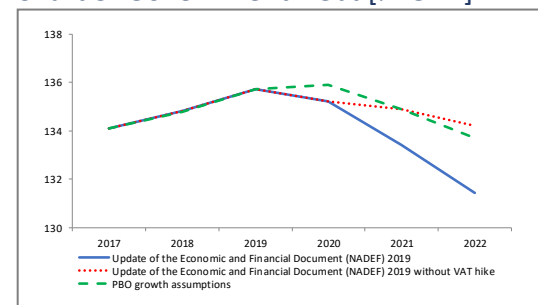


Chart 3: Government Debt [% GDP]



Sources:
Update of the Economic and
Financial Document (NADEF)
2019.

f – forecast/provisional estimate

Key messages:

- Economic growth has slowed in 2019 and GDP growth projections for the coming years are cautious. Weaker economic prospects will require scrutiny of the fiscal projections adopted under more optimistic growth conditions.
- The Tax reform passed in 2017 has resulted into lower tax revenues and difficulties to meet expenditure commitments, while the positive impact on the economic performance is still to be assessed.
- The Council finds the fiscal framework for 2020-2022 compliant with the fiscal rules, except for the deviation due to the tax reform from the fiscal targets.

Macroeconomic outlook

Economic growth in 2019 has slowed compared to optimistic projections earlier. Real GDP growth projections for 2019 have been revised by national, IMF and the EC experts downwards by 0.4-0.6 percentage points. The main reasons for the slowing economic growth have been the decrease in export volumes and investments, risks in the Latvian banking sector and the decrease of economic sentiment of Latvia's trading partners. Weaker economic prospects may require a fresh look at the feasibility of the fiscal projections prepared under more optimistic sentiment.

The Latvian economy still maintains growth inertia, keeps high employment and strong demand for labor, as wage convergence to average levels in the EU continues in both the private and public sectors, and capacity utilization remains high. Price inflation remains low, while being highest since 2010. Lending remains weak and banks are cautious expanding lending to non-financial residents of Latvia.

Short-term fiscal outlook

Latvia's fiscal outlook has been adversely affected by the tax reform of 2017 with most negative fiscal impact in 2019 and 2020. Tax revenues lost around 1% of GDP per year and resulting fiscal stimulus in period of steady economic growth. Resulting revenue shortfall reduced the resources required to meet the expenditure commitments, mostly the salary increases in public sector to keep up with compensation growth in the rest of the economy. General government debt has been increasing in recent years, reflecting the practice of preparing budgets with deficits. At the same time in 2018 public debt ratio to GDP has declined reflecting strong growth of GDP. General government consolidated gross debt decreased in 2018 to 10.6 billion euros – by 0.2 billion euros or 1.8% compared to 2017.

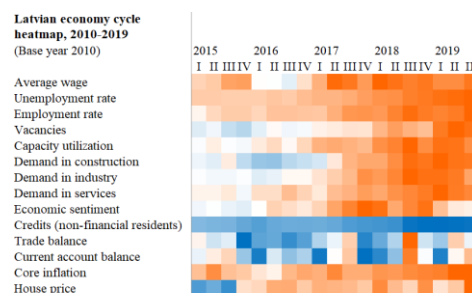
Medium-term fiscal outlook

The commitment of the government to consolidate the fiscal position in 2019 and 2020-2022 is appreciated after engaging some fiscal stimulus measures in 2017 and 2018. Meanwhile, it should be noted that more contribution to reducing debt to GDP levels should have been achieved during high-growth stage of the economic cycle. Medium-term budget envisages achieving the structure balance objective in 2021 and 2022, while the effort on containing the expenditure growth not to exceed the growth of the potential GDP should be improved.

Fiscal framework and national fiscal rules

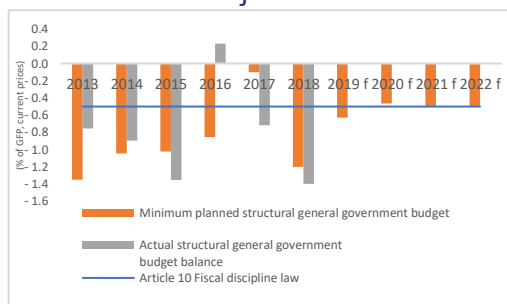
The Council, while reviewing the compliance with the numerical fiscal rules prepared by the Ministry of Finance, and agrees that the expenditure benchmark rule applies for 2020 as the tightest condition, and structural balance rules shall apply for 2021 and 2022. At the same time the Council estimates the expenditure ceilings for 2020 should have been set at EUR 94.6 million euro less than the budget. The Council finds that the numerical fiscal rule of debt limit of 60 percent of GDP may not be adequate for Latvia and a discussion should be initiated to adopt a debt anchor to guide the fiscal policy.

Chart 1: Latvian economy cycle heatmap for the period 2016-2019



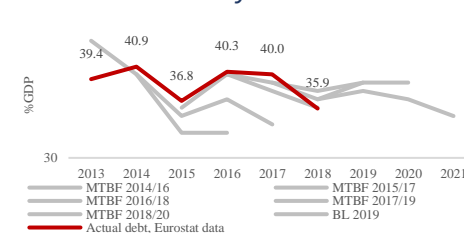
Source: <https://fiscalcouncil.lv/cycle-heatmap>

Chart 2: Structural balance level and medium-term objective



Source: Ministry of Finance and Fiscal Council calculations

Chart 3: GG debt dynamics % of GDP



Source: MTBF in period 2014-2019, BL 2019, Eurostat

Key indicator forecast

| | | 2019 forecasts | 2020 forecasts | 2021 forecasts | 2022 forecasts |
|----------------------|------------|----------------|----------------|----------------|----------------|
| Real GDP growth | [% y-to-y] | 3.2 | 2.8 | 2.8 | 2.8 |
| Nominal GDP growth | [% y-to-y] | 6.4 | 5.6 | 5.3 | 5.3 |
| Consumer price index | [%] | 2.8 | 2.5 | 2.1 | 2.0 |
| GDP Deflator | [%] | 3.1 | 2.7 | 2.4 | 2.4 |
| Potential GDP growth | [% y-to-y] | 3.5 | 3.4 | 3.2 | 3.2 |
| Output Gap | [% of GDP] | 1.4 | 0.8 | 0.4 | 0.0 |

Source: Macroeconomic forecast endorsement, June 2019. Available: https://fiscalcouncil.lv/27062019_macroecconomic_forecast_endorsement

Key messages:

- Lithuania's economic growth is balanced but external risk factors remain important
- In the medium-term weakening external demand will slowdown Lithuania's exports
- The stance of economy signals the need of neutral fiscal policy
- The fiscal policy will remain pro-cyclical in 2019, but it will improve its direction and will become neutral in 2020
- Gross debt will remain below 37.0 % of GDP in the medium-term because of negative automatic debt dynamics

Macroeconomic outlook

The Lithuania's economic growth was balanced in the first half of 2019, as it was positively contributed by final consumption expenditure, investment and net export. As a result of the accelerated absorption of European Union financial support in the first half of 2019, investment in Lithuania has been growing at a faster pace than expected. The growth of the country's average gross monthly wage remains a key factor in supporting the growth of private consumption expenditure. This is contributed by the optimistic consumer expectations, and a stable, slower than the growth of average gross monthly wage, inflation. The observed uncertainty in the international environment due to the trade dispute between the United States and China, high political uncertainty in Europe, including Brexit, the slowdown of world economies, is likely to affect the growth of major euro area economies. As a result, the slowdown in the growth of the main Lithuania's export partners' economies will stimulate the search for new export markets. According to the Ministry of Finance autumn projections, the economic growth is expected to be 3.7 % in 2019 and 2.4 % in 2020. Positive output gap projected by the fiscal institution brings cyclical revenue to the general government (Chart 1) and signals the need to increase the rainy-day fund.

Short-term fiscal outlook

The favourable position of Lithuania's business cycle in 2019–2020 warns of the need for a neutral fiscal policy. According to the fiscal institution, given the change in the GG structural primary balance in 2019 and 2020, the fiscal policy of Lithuania will maintain its pro-cyclical stance in 2019, but it will improve its direction and will become neutral in 2020 (Chart 2).

Medium-term fiscal outlook

The fiscal institution projects the general government balance to be at 0.0 % of GDP in 2019, whereas a deficit of 0.2 % of GDP is projected in 2020 (Chart 1). The balance of risk factors for the general government balance indicator for the period 2019–2020 is negative.

The growth of general government debt has been modest over the last few years and stood at around 40 % of the GDP. In the medium term, general government debt will be reduced by automatic debt dynamics and it could reach 36.6 % in 2019 and 35.7 % of GDP in 2020 (Chart 3).

Fiscal framework and national fiscal rules

Budgets attributable to general government shall be prepared in accordance with national and European Union rules which apply to Lithuania as a member of the euro area. According to the fiscal institution's ex-ante assessment, national fiscal disciplines rules were complied with in 2020, except the risk that the compliance with the surplus GG rule will not be observed. According to this rule, the structural GG balance indicator in absolute value should be lower than the medium-term objective in absolute value. The structural deficit of the GG constitutes 1.3 % of GDP in 2020, and is higher than the medium-term objective. The expenditure growth limitation rule has not been applied reasonably during the preparation of the draft budgets of the GG for 2020 since the average of GG balance indicators for 2015–2019 is positive.

Key indicators

| | | 2016 | 2017 | 2018 | 2019 f | 2020 f | 2021 f | Source/ notes |
|----------------------------------|------------|------|------|------|--------|--------|--------|------------------|
| Real GDP growth rate | [% y-to-y] | 2.6 | 4.2 | 3.6 | 3.7 | 2.4 | 2.3 | 1 |
| Output Gap – MoF est. | [%] | 1.0 | 2.9 | 3.6 | 3.5 | 2.2 | 1.3 | 1 |
| Output Gap – IFI est. | [%] | 0.3 | 2.0 | 2.8 | 3.4 | 2.7 | 1.9 | 2 |
| GG balance – targets | [% of GDP] | 0.2 | 0.5 | 0.6 | 0.1 | 0.2 | 0.1 | 1 |
| GG balance – IFI est. | [% of GDP] | 0.2 | 0.5 | 0.6 | 0.0 | -0.2 | – | 2 |
| GG debt – MoF est. | [% of GDP] | 39.9 | 39.3 | 34.1 | 36.4 | 35.1 | 34.8 | 1 |
| GG debt – IFI est. | [% of GDP] | 39.9 | 39.3 | 34.1 | 36.6 | 35.7 | – | 2 |
| GG structural balance – MoF est. | [% of GDP] | -0.3 | -0.7 | -0.8 | -1.4 | -0.7 | -0.4 | 1 |
| GG structural balance – IFI est. | [% of GDP] | -0.1 | -0.4 | -0.5 | -1.4 | -1.3 | – | 2 |

Chart 1: Structural Balance

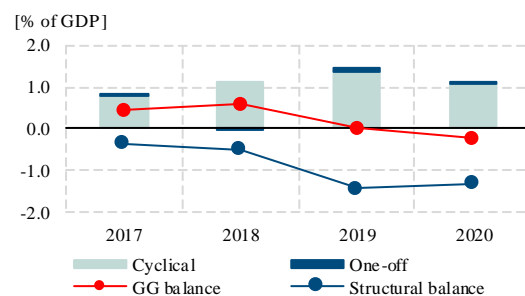


Chart 2: Fiscal Stance

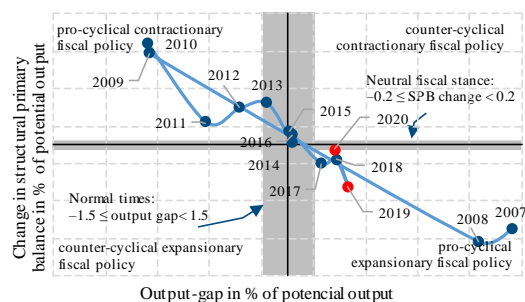
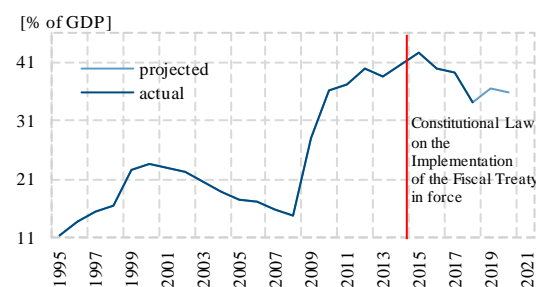


Chart 3: Debt-to-GDP ratio



Sources/notes:

- 1 – MoF: Draft Budget 2020, 17.10.2019
- 2 – IFI: The Report on financial indicators of general government 2020, 12.11.2019

f – forecast

Key messages:

- An annual GDP growth of +2.4% projected for 2019 and 2020
- Fiscal surplus is projected to decrease from +2.0% in 2019 (important actualisation since 2019 Budget where 2019 was estimated to have a fiscal surplus of 1.0%) to +1.2% in 2020.
- The medium-term budgetary objective is met with a MTO set (at the minimal level defined by the European Commission) at -0.5% for 2019 and +0.5% for 2020-2022.
- For the period 2019-2023 the structural balance presents a margin relative to the MTO. Due to the uncertainties surrounding the macroeconomic and fiscal forecasts, this margin may not be achieved.
- Public debt for 2019 is decreasing to 20.0% of GDP. In absolute terms, the gross debt is projected to continue an upward trajectory in the medium term 2020-2023 while respecting the debt ceiling of 30% of GDP, as promised in the coalition agreement.

Macroeconomic outlook

The 2019-2023 PLFPF presents a significant downward revision of the GDP for the short term. The updated real GDP growth rate for Luxembourg is projected to be at 2.4% in 2019 and 2020. The projections for the medium term (around 3.0%) stem from the forecasts already published in mars 2019 by STATEC. Given this partial update of the macroeconomic scenario and the volatility of the forecasts, the accuracy of the medium-term projections is questionable. Indeed, based on historic forecast errors, the CNFP finds that uncertainty levels of ± 0.39 (2019) and ± 0.67 (2020) percentage points surround the projection of the real GDP as presented in the 2019-2023 PLFPF (see chart 1).

Short-term fiscal outlook

In 2019 and 2020, revenue growth is projected to be moderate (with 5.5% and 4.2%) whereas public expenditure is projected to experience an exceptional increase (with 7.1% and 6.3%), against a common historical growth of 6.1% (see chart 2).

Medium-term fiscal outlook

According to the 2019-2023 PLFPF, the nominal balance is expected to improve gradually in the medium term (2021-2023) to reach 2% of GDP by 2023. On the one side, the 2019-2023 LPFP assumes a gradual recovery of government revenues (5.1%). On the other hand, public spending is expected to increase less quickly (4.5%) (see chart 2). The CNFP questions however the accuracy of this medium-term fiscal outlook. Although past experiences show that balances have frequently improved, there are several downside risks in the medium term (e.g. the tax reform planned for this legislature is implicitly supposed to be budget-neutral whereas the personal income tax forecast, established under unchanged policy, presents a much higher rate of growth than the GDP, hypothesis of a less dynamic evolution of certain categories of expenditure (investments, remunerations) and lack of impact of the announced package of measures to combat climate change).

Fiscal framework and national fiscal rules

Based on the forecasts presented in the PLFPF 2019-2023, the CNFP finds that Luxembourg should be compliant with the MTO rule over the period 2019-2022.

The CNFP notes that the 2019-2023 PLFPF presents structural balances with some margin relative to the MTO. Due to the uncertainties surrounding the macroeconomic and fiscal forecasts, this margin may not be achieved. The CNFP concludes that a margin between the structural balance and MTO remains desirable, in particular if one takes into account the volatility of forecasts and the objective of sustainable public finances.

Chart 1: Projected real GDP of the 2019-2023 PLFPF in a confidence interval of 30%, 60% and 90%

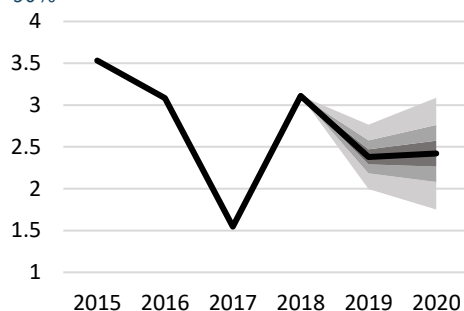
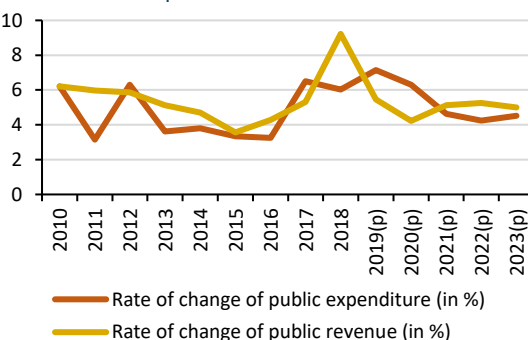


Chart 2: Evolution of the growth rate of public revenue and expenditure



Key indicators

| | | 2018 | 2019 | 2020 | 2021 f | 2022 f | 2023 f | Source/ notes |
|----------------------------------|------------|------|------|------|--------|--------|--------|------------------|
| Real GDP growth rate | [% y-to-y] | 3.1 | 2.4 | 2.4 | 3.5 | 3.0 | 2.5 | 2 |
| Output Gap – MoF est. | [%] | 1.2 | 0.9 | 0.5 | 0.7 | 0.5 | 0.2 | 2 |
| GG balance – MoF est. | [% of GDP] | 2.7 | 2.0 | 1.2 | 1.4 | 1.8 | 2.0 | 2 |
| GG debt – MoF est. | [% of GDP] | 21.0 | 20.0 | 19.8 | 19.3 | 18.5 | 17.5 | 2 |
| GG structural balance – MoF est. | [% of GDP] | 2.1 | 1.6 | 0.9 | 1.0 | 1.6 | 1.9 | 2 |

Sources/notes:

- 1 – Draft budget for 2020 (2020 DB), October 2019;
 - 2 – Draft multiannual financial programming law for the period 2019-2023 (2019-2023 LPFP), October 2019;
 - 3 – CNFP, Assessment of the 2020 DB and 2019-2023 LPFP, November 2019.
- f – forecast
MoF – Ministry of Finance

Key messages:

- Real GDP growth is expected to remain strong, but decelerate gradually from 6.8% in 2018, to 5.0% in 2019 and 4.3% in 2020.
- Malta is expected to continue over-achieving its MTO of structural balance.
- The Debt-to-GDP ratio is projected to continue declining, to reach 40.3% of GDP by 2020.
- The fiscal rules are expected to be met in both 2019 and 2020.

Macroeconomic outlook

Throughout the forecast horizon, domestic demand is set to remain the main driver of real GDP growth, as was the case in 2018 (see Chart 1). The assessment carried out on the individual GDP expenditure components suggests a broadly neutral risk outlook vis-à-vis real GDP growth in 2019. This primarily on the basis that the downside risks to investment which are largely matched by downside risks to imports. Even the risk outlook for real GDP growth for 2020 is neutral. This is the net result of the downside risk to gross fixed capital formation being broadly offset by the upside risk to government consumption and the downside risk to imports.

Short-term and Medium-term fiscal outlook

The fiscal surplus is anticipated to amount to 1.4% of GDP in both 2019 and 2020 (see Chart 2). This is slightly lower than in 2018, as the planned increase in the expenditure-to-GDP ratio exceeds that in the revenue ratio. In turn, the stability in the fiscal surplus-to-GDP ratio in 2020 reflects a projected marginal decline of equal magnitude in both the revenue ratio and the expenditure ratio. Meanwhile, the public debt-to-GDP ratio is anticipated to decline further, to 40.3% by 2020, as a result of the projected fiscal surpluses and nominal GDP growth (see Chart 3). The assessment carried out by the council on the individual revenue and expenditure components, suggests possible upside risks for the fiscal balance in 2019, but downside risks for 2020.

Summary of risks to the macroeconomic and fiscal forecasts

| | 2019 | 2020 |
|------------------------------------|------|------|
| RISKS TO REAL GDP GROWTH | ↔ | ↔ |
| Total revenue | ↔ | ↔ |
| Total expenditure | ↓ | ↑ |
| RISKS TO THE FISCAL BALANCE | ↑ | ↓ |

Fiscal framework and national fiscal rules

The Fiscal Council confirms there was full compliance with the fiscal rules in 2018, and based on the updated macroeconomic and fiscal outlook, such fiscal rules are expected to continue being adhered to over the forecast horizon. This in view of the plans which indicate that the debt ratio would remain below the 60% of GDP ceiling, and the fiscal balance would remain in surplus in structural terms, thus enabling the country to continue over-achieving its Medium-Term Objective. Strong public finances are important not only to comply with the fiscal rules, but to ensure that appropriate buffers are created at a time when the economic performance is favourable. Such fiscal space would prove beneficial in the eventuality that economic conditions become less favourable at some future date. Vigilance remains important, particularly as elements of uncertainty remain. The external economic conditions might become more challenging and / or the intensity of domestic demand could abate. The Council also reiterates the importance that expenditure developments should be monitored carefully, to factor in any possible future risks to the robustness of revenues.

Key indicators

| | | 2016 | 2017 | 2018 | 2019 f | 2020 f | Source/ notes |
|-----------------------|------------|------|------|------|--------|--------|------------------|
| Real GDP growth rate | [% y-to-y] | 5.7 | 6.7 | 6.8 | 5.0 | 4.3 | 1 |
| Output Gap | [%] | 1.6 | 1.3 | 1.8 | 1.2 | -0.1 | 1 |
| GG balance | [% of GDP] | 0.9 | 3.4 | 1.9 | 1.4 | 1.4 | 1 |
| GG gross debt | [% of GDP] | 55.5 | 50.3 | 45.8 | 43.0 | 40.3 | 1 |
| GG structural balance | [% of GDP] | 0.2 | 3.0 | 0.9 | 0.8 | 1.3 | 1 |
| Expenditure growth | [% y-to-y] | -1.1 | 7.3 | 11.7 | 10.9 | 6.2 | 1 |
| Revenue growth | [% y-to-y] | 4.1 | 14.6 | 7.3 | 9.4 | 6.0 | 1 |

Chart 1: Contributions to real GDP growth (pp)

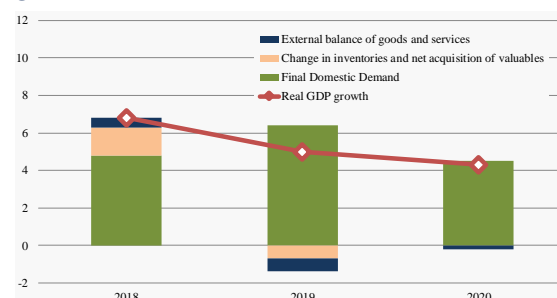


Chart 2: Revenue, expenditure and general government balance (% of GDP)

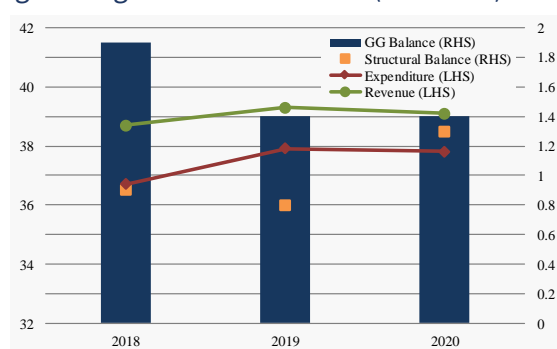
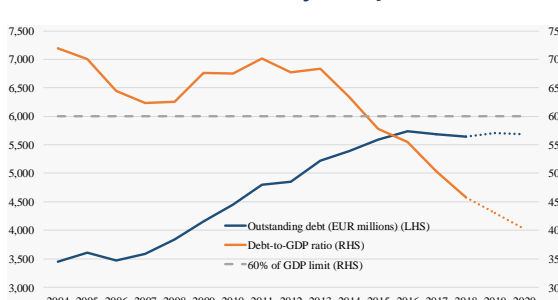


Chart 3: Public debt trajectory



Sources/notes:

1 – Malta: Draft Budgetary Plan 2020, Ministry for Finance

f – forecast by the Ministry for Finance / provisional estimate

Key messages:

- Economic growth in the Netherlands will decrease to 1.5% in 2020 due to the ill wind sweeping in from abroad.
- The general government's budget balance will, as a result of expansionary policies and weaker economic growth, reduce from 1.5% of GDP in 2018 to 1.2% in 2019 and 0.3% in 2020.
- Dutch public finances are expected to remain within the limits of the European fiscal rules. However, it's not obvious that the structural budget balance is worsening in sound economic times.

Macroeconomic outlook

After an annual growth level of at least 2% in each of the previous four years, GDP growth is expected to decrease to 1.8% in 2019 and 1.5% in 2020. The ill wind from abroad as a result of trade tensions will have a negative impact on export growth in the first instance, but also on producer confidence and on business investments, as well. The greater increase in imports than in exports, the developments of the balance of primary income from abroad, and the decline in natural gas exports are leading to a decline in the current account balance from a record level of 11.2% of GDP in 2018 to 8.7% in 2020. The surplus in 2020 is still large, both historically and internationally. Lower export growth has mainly negative consequences for industry, while continued growth in domestic spending is positive for the services sector (Chart 1).

Unemployment will be at its lowest level in 2019 and will remain low next year. After declining from a peak of 7.4% in 2014 to 3.4% in 2019, the unemployment rate is expected to rise to 3.5% in 2020. This is still low from a historical and international perspective and indicates a tight labour market. Since the end of 2017, the tight labour market has also been reflected in a slight increase in the proportion of workers on permanent contracts, especially for the highly educated. As from next year, the development of the employment rate of the self-employed compared to that of employees will be slowed down by the reduction in the deduction for the self-employed. As a result of the flexibilisation of the labour market, the vulnerability of Dutch people to economic fluctuations has increased and the negative consequences of this have been distributed more unevenly.

Short-term fiscal outlook

The budget surplus will reduce from 1.5% of GDP in 2018 to 1.2% in 2019 and 0.3% in 2020. The structural EMU budget balance will fall to -0.4% of GDP in 2020, as a result of spending increases and a reduction in the financial burden for households. Denominator effects will steadily continue to reduce public debt, which will fall below 50% of GDP this year, i.e. to 49.3% of GDP, and in 2020 it will decrease further 47.6%. The government has lowered spending caps for 2019 and increased them for 2020 to bring them into line with the actual possible pace of additional spending on infrastructure and defence. Furthermore, the cap on spending has been raised, from 2020 onwards, due to the pension agreement and the climate change agreement. Real government spending will increase by 2.4% in 2019 and 3.0% in 2020, outstripping GDP growth. Next year, households and businesses will experience an alleviation of the financial burden of 4.4 billion euros and 0.2 billion euros, respectively.

Fiscal framework and national fiscal rules

The Advisory Division of the Council of States concludes that – based on the forecast of the CPB - Dutch public finances are expected to remain within the limits of the European fiscal rules. Although the gross public debt falls to a level beneath 50% of GDP in 2019, the structural budget balance turns to a deficit of 0.4% of GDP due to the expansionary budgetary policy.

Key indicators

| | | 2016 | 2017 | 2018 | 2019 f | 2020 f |
|--|---------------|------|------|------|--------|--------|
| Gross Domestic Product (economic growth) | [% per year] | 2.2 | 2.9 | 2.6 | 1.8 | 1.5 |
| Long term interest rate in the Netherlands (end of period) | [level in %] | 0.3 | 0.5 | 0.6 | 0.1 | 0.0 |
| Relevant world trade volume goods and services | [% per year] | 3.7 | 5.1 | 3.2 | 1.9 | 1.9 |
| GG consumption | [% of GDP] | 1.3 | 0.9 | 1.6 | 2.2 | 2.9 |
| GG budget balance (end of period) | [% of GDP] | 0.0 | 1.3 | 1.5 | 1.2 | 0.3 |
| Gross public debt (end of period) | [% of GDP] | 61.9 | 56.9 | 52.4 | 49.3 | 47.6 |
| Inflation (HICP) | [% of GDP] | 0.1 | 1.3 | 1.6 | 2.6 | 1.3 |
| Unemployed labour force (end of period) | [% of labour] | 6.0 | 4.9 | 3.8 | 3.4 | 3.5 |

Chart 1: Economic growth slows down due to lower export growth

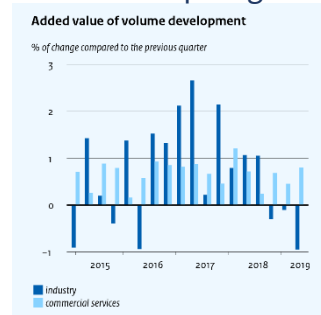


Chart 2: Unemployment at its lowest point in 2019 and remaining low in 2020

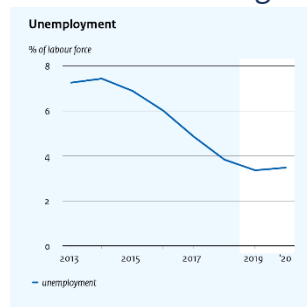
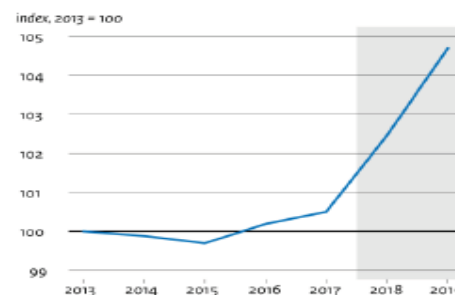


Chart 3: The growth of real government expenditures



Sources
CPB, Macro Economic Outlook 2020, [\(link\)](#)
Advisory Division of the Council of State, The 2019 September Report on Fiscal Monitoring, [\(link\)](#)
f - forecast

Key messages:

- The Portuguese economy has kept a fair rate of growth, with a deceleration trend that is expected to continue.
- Fiscal balance will be close to equilibrium in 2019 and a positive outturn of 0.2% of GDP is expected for 2020.
- Debt to GDP ratio reduction objective remains a central target in fiscal policy, with a further reduction from 118.9 in 2019 to 116.2 in 2018.
- In spite of the good results obtained, further structural reform impetus is required and may be hampered by the fragmentation of the political scenario.

Macroeconomic outlook

A deep revision of National Accounts has had impact on the data, changing GDP growth from 2.8% to 3.5% in 2017 and from 2.1 to 2.4% in 2018. In 2019 a further slowing to 1.9% is expected and the same growth is foreseen for 2020. CFP has endorsed the MoF's forecast for 2020, but has remarked that it was above, albeit close, to all known forecasts. The fiscal deficit reduction effort has persisted. Also, a financial market friendly orientation focused on debt reduction and budget balance control, committed to EC rules, supported confidence. Yet, still high external (public and private) debt levels make the economy sensitive to the significant geopolitical risks that remain in the background. All forecasters assume a deceleration in GDP growth from 2019 onwards, derived either from a level effect and/or a lack of evidence of structural reform impetus. The reduction of unemployment rate has been a major positive trait of recent economic developments that seems to be slowing down, with a possible negative effect on economic sentiment. The fact of recent growth being born on the back of domestic demand has already generated a deficit in the current account that can be a major risk for the sustainability of future macroeconomic developments and nominal fiscal consolidation achieved.

Chart 1: GDP growth forecast

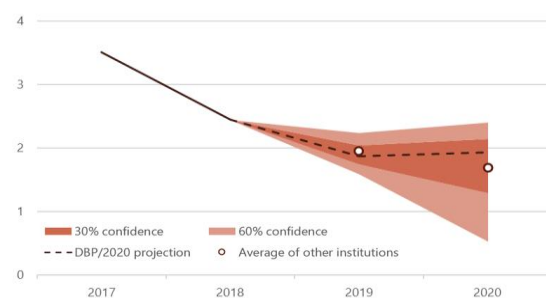
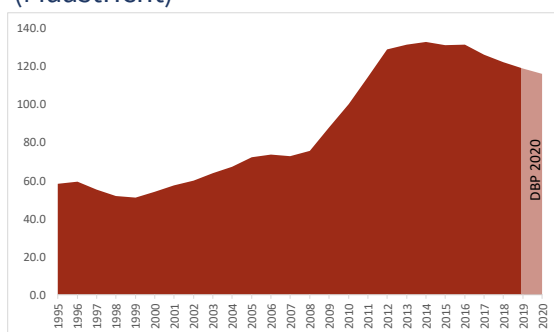


Chart 2: Gross debt-to-GDP ratio (Maastricht)



Short-term fiscal outlook

The General Government deficit official target for 2019 set in the DBP/2020 is -0.1 of GDP and a surplus of 0.2% in 2020. Under a no-policy change assumption CFP projected 0.1% and 0.3% respectively. The primary surplus is forecasted by the Government to reach 3.0% of GDP in 2019 and 3.3% in 2020. The lower expected growth makes it harder to achieve such goals that will require an unchanged fiscal policy stance, with a strong focus on expenditure control and on debt reduction to avoid any slippages. The high weight of interest payment savings in the deficit control keeps a high pressure on debt reduction targets.

Medium-term fiscal outlook

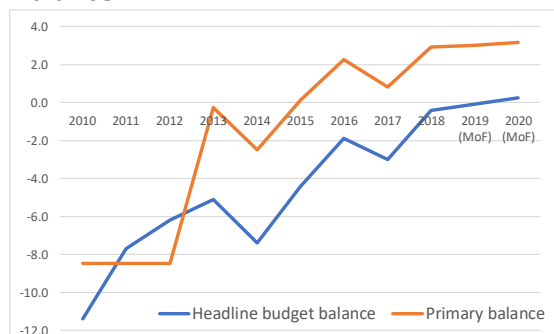
The Medium-Term Objective is now a structural budget balance of 0.0%, which the Government expects to achieve in 2020, according to the latest DBP. The structural balance in 2019 is currently estimated at -0.3% of GDP in the DBP. Given the high public debt, the main fiscal challenge is to keep the debt ratio on a clear declining trend. This is important to secure market confidence that will further ease the fiscal consolidation efforts. According to the latest SP primary surpluses and economic growth will be the main drivers behind the projected debt ratio decline.

There are budgetary pressures arising from civil servants' compensation of employees, intermediate consumption and reinvestment needs, after years of historical low investment expenditure. The social security expenditures may also pose some changes after a period of containment below nominal GDP growth rate. Even if expenditure control would be achievable in the short-term, long term mounting effects require structural changes that enhance public expenditure efficiency.

Fiscal framework and national fiscal rules

The implementation of the new Budget Framework Law adopted in September 2015 remains a challenge. Due to be implemented in 3 years' time it is still delayed even after being postponed by a year. Delays are also observable in the implementation of the essential 2015 public accounting standards reform towards an accrual system based on IPSAS.

Chart 3: Headline and Primary Budget Balance



Key indicators

| | | 2017 | 2018 | 2019 f | 2020 f | Source/ notes |
|----------------------------------|------------|-------|-------|--------|--------|------------------|
| Real GDP growth rate – MoF est | [% y-to-y] | 3,5 | 2.4 | 1.9 | 1.9 | 1, 2 |
| Real GDP growth rate – IFl est | [% y-to-y] | 3,5 | 2.4 | 1.9 | 1.7 | 1, 3 |
| Output Gap – MoF Est | [%] | 0.9 | 1.6 | 1.5 | 1.3 | 2 |
| Output Gap – IFl Est | [%] | 1.0 | 1.7 | 1.6 | 1.1 | 3 |
| GG balance – targets | [% of GDP] | -3.0 | -0.4 | -0.1 | 0.2 | 1, 2 |
| GG balance – IFl est. | [% of GDP] | -3.0 | -0.4 | 0.1 | -0,3 | 1, 3 |
| GG debt - MoF est. | [% of GDP] | 126.0 | 122.2 | 118.9 | 116.2 | 2, 4 |
| GG debt – IFl est. | [% of GDP] | 126.2 | 122.2 | 118.5 | 116.2 | 3, 4 |
| GG structural balance – MoF est. | [% of GDP] | n.a. | -0.6 | -0.3 | -0,0 | 2 |
| GG structural balance – IFl est. | [% of GDP] | n.a. | -0.9 | -0.2 | 0,0 | 3 |

Sources/notes:

- 1 – Statistics Portugal
 - 2 – MoF – DBP/2020
 - 3 – 2018-2023 PT CFP - Report no. 02/2019: Public Finance: Position and Constraints 2018-2022 update (no policy change projections), September 2019
 - 4 – Bank of Portugal
- f – forecast/provisional estimate
Note: Budget balance figures

Key messages:

- After a growth of about 4% in 2019, the GDP advance is estimated at 3.6%- 4.1% in 2020.
- In 2019 the reference value of 3% of GDP for the headline deficit was significant surpassed, the last government estimate being 3.8% of GDP (the initial target was 2.8% of GDP), while in structural terms it widened by 1pp compared with 2018.
- For 2020, the government did not envisage adequate correction measures, the headline deficit being projected at 3.6% of GDP with a marginal improvement of the structural deficit by 0.3 pp compared to 2019, against the last EC recommendation of 1% of GDP, as Romania is under the Significant Deviation from MTO Procedure since 2017.
- In its Opinion on the 2020 Draft Budget, the Romanian Fiscal Council (FC) warned that in the context of applying the new Pension Law starting September, 1st, 2020, the headline deficit will further deteriorate in 2021, the risks related to the macroeconomic imbalances being considerably high on medium term.

Macroeconomic outlook

Economic growth in 2019 is estimated at the same pace as in 2018 (4.1%) in real terms, driven by the private consumption and a strong recovery in investment. In 2020 real GDP growth is expected to record an advance between 3.6% (EC estimate) and 4.1% (Romanian authorities' estimate).

Short-term and medium-term fiscal outlook

In 2019 the general consolidated budget deficit widened considerably, from 3% in 2018 to 3.8% of GDP due to continued increases in public sector's wages and pension benefits. The fiscal policy stance remains expansionary also in 2020, as the revised Pension Law will enter into force in September, 1st, setting additional increases by 40% and no correction measures are provided by the Romanian authorities. As the 2020 budget did not considered some tax cuts in an advanced stage of setting up (as eliminating extra-excise for fuels, special taxes on bank and energy sector that were eliminated shortly after MPF submitted the draft budget) and overestimate non tax revenues while under estimate the goods and services and social spending, the FC considers that the headline deficit of 3.6% of GDP set by the MPF is likely to be surpassed while in 2021 it will further deteriorate. According to the Fiscal Strategy 2020-2022, the structural balance estimated by the MPF for 2020 is 3.4% with an improvement of only 0.3 pp compared to 2019 (against the last EC recommendation for a structural adjustment of 1 pp in 2020) and 3.2 of GDP in 2021. The FC considers that under current policies, the EC structural deficit estimates of 4.4 % of GDP in 2020, and 5.9% of GDP in 2021 are realistic.

Fiscal framework and national fiscal rules

Over the last years the FC warned about the non-compliance with the majority of fiscal rules when drafting the budgetary laws, proving that the Fiscal Responsibility Law did not exercise any constraints to the policy-makers. Romania was placed under the preventive arm of SGP, due to the major deviation from the MTO starting with 2017, all the EC recommendations for structural adjustment being not considered since 2016. In its Opinion on the 2020 budget, the FC noted that all the fiscal rules are broken ex-ante. The FC warned that the implementation of the new Pension Law will amplify the pressures on the 2021 budget if no adequate corrective measures are taken in 2020, leading to a high probability that budget deficit will rise steeply, which would affect the overall economic stability.

Chart 1: Revenue, expenditure as % in GDP (national methodology)

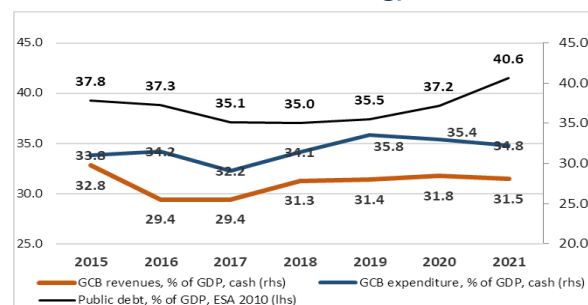
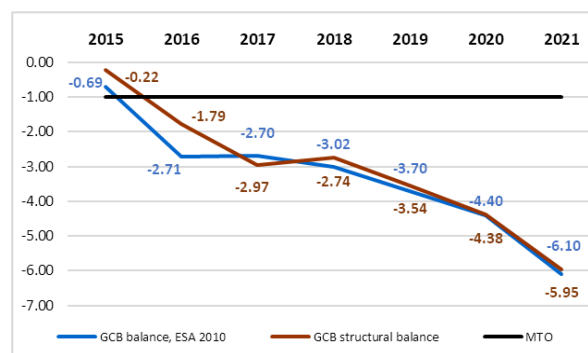


Chart 2: Headline, structural balances and MTO (ESA 2010)



Sources: MPF projections (Chart 1), Eurostat (Chart 2)

Key indicators

| | | 2017 | 2018 | 2019 f | 2020 f | 2021 f | Source/ notes |
|------------------------|------------|------|------|--------|--------|--------|------------------|
| Real GDP growth rate | [% y-to-y] | 7.0 | 4.1 | 4.0 | 4.1 | 4.2 | 1 |
| Real GDP growth rate | [% y-to-y] | 7.0 | 4.0 | 4.1 | 3.6 | 3.3 | 2 |
| GG headline balance | [% of GDP] | -2.6 | -3.0 | -3.8 | -3.6 | -3.4 | 1 |
| GG headline balance | [% of GDP] | -2.7 | -3.0 | -3.7 | -4.4 | -6.1 | 2 |
| GG public debt. | [% of GDP] | 35.1 | 35.0 | 36.4 | 37.1 | 37.8 | 1 |
| GG public debt | [% of GDP] | 35.1 | 35.0 | 35.5 | 37.2 | 40.6 | 2 |
| GG structural balance | [% of GDP] | -3.0 | -2.7 | -3.7 | -3.4 | -3.2 | 1 |
| GG structural balance. | [% of GDP] | -2.9 | -3.0 | -3.5 | -4.4 | -5.9 | 2 |

Sources/notes:

- 1 – Ministry of Public Finance (MPF), 2020-2022 Fiscal Strategy;
- 2 – European Commission (EC), 2019 Autumn Forecast f- forecast

Key messages:

- Foreign risks have materialized, the economic expansion has slowed down
- Fiscal deficit in 2019 may reach 1.3 % of GDP if no additional measures are taken by the government
- Meeting the MTO in 2020 as projected by the government is at high risk of not being achieved
- Gross debt is expected to exit sanction zone of the debt brake in 2019, 7 years after initial breach
- Deviation from the path to MTO has been assessed as significant; the gov't should decide on a correction mechanism

Macroeconomic outlook

The GDP growth remains subdued at 2% in 2019 and 2020, almost half of what was expected one year ago. The exports have slowed down due to changes in world trade policies, Brexit and environmental transformation of automotive industry. New car production capacities will offset weaker foreign demand. Domestic demand will be slower and wage growth will rest primarily on public sector. The unemployment rate is not expected to rise, while inflow of foreign workers will continue to compensate for the labour market mismatches.

Short-term fiscal outlook

The government estimates the 2019 general government deficit at 0.7 % of GDP, which means worsening relative to the budgeted value of 0.0 % of GDP. CBR identified additional risks amounting to 0.6 % of GDP (Table 1, as of mid-November 2019). If those materialise and unless the government adopts additional measures, the deficit may reach 1.3 % of GDP.

Medium-term fiscal outlook

Based on the fiscal targets outlined in the budget, the government expects to meet the medium-term objective (structural deficit of 0.5% of GDP) in 2020. In the view of CBR, it requires adoption of additional measures due to several risks identified in the budget proposal (Table 1). Economic developments contribute to deterioration in the GG balance due to a cyclical slowdown, total impact of government measures on the balance is negative (Chart 1). Revenue-decreasing measures and rising current expenditures in 2020 are financed by cuts in investment (Chart 2). The gross debt could rise to 50.4 % of GDP in 2022 according to CBR.

Tab 1: Medium-term risks for the general government balance according to CBR

| % of GDP | 2019 f | 2020 f | 2021 f | 2022f |
|---|-------------|-------------|-------------|-------------|
| Overall impact on the GG balance | -0.6 | -1.3 | -1.3 | -1.3 |
| Tax revenue | 0.0 | -0.1 | -0.1 | 0.0 |
| Non-tax revenue | -0.2 | -0.2 | -0.1 | -0.2 |
| Social transfers and benefits | 0.0 | -0.3 | -0.3 | -0.3 |
| Transactions with the EU budget | 0.0 | 0.1 | 0.1 | 0.1 |
| Central Gov't current expenditure | -0.1 | 0.0 | -0.2 | -0.2 |
| Central Gov't capital expenditure | -0.3 | -0.5 | -0.5 | -0.6 |
| Local governments | -0.2 | -0.2 | 0.0 | 0.1 |
| Healthcare spending | 0.1 | -0.1 | -0.2 | -0.2 |
| Other GG entities | 0.2 | 0.0 | -0.1 | -0.1 |
| Other factors | 0.0 | 0.0 | 0.0 | 0.0 |

Fiscal framework and national fiscal rules

If fiscal targets are met, the gross debt will fall below the first sanction threshold of the debt brake in 2019, which means that sanctions have been active for 7 years (Chart 3). The fiscal framework is weak as it enabled worsening of the targets repeatedly despite significant revenue windfalls. In the balanced budget rule (a transposition of the Fiscal Compact), a deviation from the path to MTO observed in 2018 has been assessed as significant by both MoF and CBR. The government is expected to decide soon on a correction mechanism, which could lead to a decrease in the level of risks for the 2020 deficit.

Key indicators

| | | 2017 | 2018 | 2019 f | 2020 f | 2021 f | 2022 f | Source |
|-------------------------------------|------------|------|------|--------|--------|--------|--------|--------|
| Real GDP growth rate | [% y-to-y] | 3.0 | 4.0 | 2.4 | 2.3 | 2.8 | 2.7 | 1 |
| Output Gap | [%] | 0.3 | 1.2 | 0.6 | 0.0 | 0.2 | 0.4 | 1 |
| GG balance – targets | [% of GDP] | -1.0 | -1.1 | -0.7 | -0.5 | 0.0 | 0.0 | 1 |
| GG balance - CBR est. | [% of GDP] | -1.0 | -1.1 | -1.3 | -1.8 | -2.0 | -2.5 | 2 |
| GG debt - MoF est. | [% of GDP] | 51.3 | 49.4 | 47.9 | 46.8 | 45.9 | 44.8 | 1 |
| GG debt - CBR est. | [% of GDP] | 51.3 | 49.4 | 48.2 | 48.2 | 49.2 | 50.4 | 2 |
| GG structural balance - CBR est. | [% of GDP] | -1.3 | -1.6 | -1.7 | -1.9 | -2.0 | -2.1 | 2 |
| Adjusted real GG expenditure growth | [% y-to-y] | 1.2 | 4.4 | 4.1 | 4.9 | 2.0 | 1.6 | 2 |
| Discretionary revenue measures | [% of GDP] | 0.2 | -0.2 | -0.1 | -0.2 | -0.1 | 0.0 | 2 |

Chart 1: Contributions to change in the GG balance 2019-2022 (% of GDP)

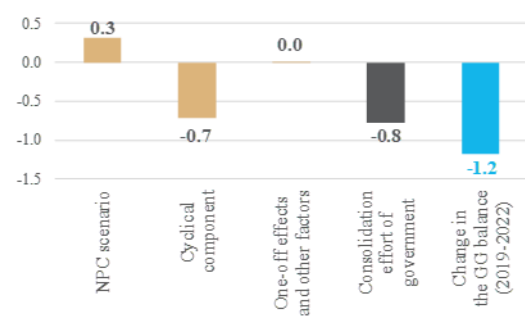


Chart 2: Government measures in 2020 (% of GDP)

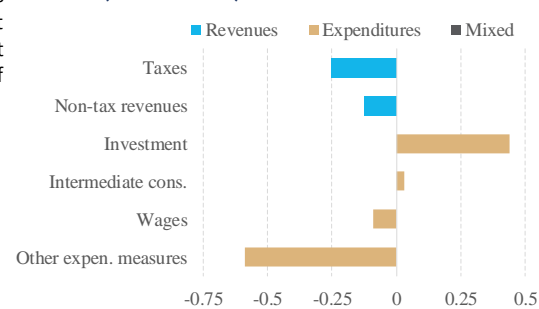
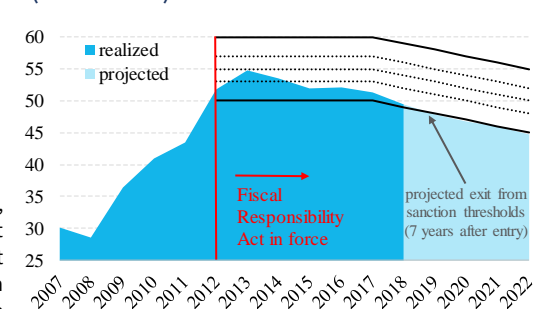


Chart 3: GG gross debt development (% of GDP)



Sources:
1 – Draft Budgetary Plan of Slovak republic for 2020, adopted on 14.10.2019;
2 – CBR: Evaluation of the General Government Budget Proposal for 2020-2022, 15.11.2019
f - forecast

Key messages:

- Economic growth remains relatively high but is gradually slowing.
- Structural balance projected for 2019-2021.
- Substantial negative risks related to fiscal projections.
- Measures are being adopted that may further endanger long-term sustainability of public finances.

Macroeconomic outlook (prepared by IMAD)

The economy expanded in Q3 2019, but at a slower annual pace (2.3 %) than in previous quarters. The average real GDP growth in Q1-Q3 2019 reached 2.7% y-o-y, supported by private consumption, which recently strengthened on the back of robust employment and higher wage growth. Slowdown in 2019 GDP growth is due to slower dynamics of exports and investments, both reflecting sluggish external demand and global uncertainties. The current account surplus has narrowed, while the inflation remains moderate.

Short-term fiscal outlook (Fiscal Council)

Public finance balance continued to improve in 2019, but at a diminishing place, which was mostly due to a moderation in economic growth. General government recorded a nominal surplus of 0.7 % GDP in Q1-Q3 2019, broadly in line with MoF forecast for the year in total (0.8 % GDP). Nominal surplus was mainly a result of continued improvement in the labour market (increased wage growth), and of still solid economic growth. The decrease in interest payments continued to play an important role in achieving nominal surplus, which was also reflected in a y-o-y decline of the primary balance. Notwithstanding the achievement of nominal goals for the 2019, the structural primary balance will deteriorate for the second year in a row while economic slack remains positive. Public debt (68.1 % GDP in Q3 2019) continues to decrease, although it was less pronounced than in the previous year. The latter is predominantly a result of lower economic growth and consequently of a less favourable ratio between GDP growth and the implicit interest rate on debt.

Medium-term fiscal outlook (Fiscal Council)

General government nominal balance is expected to remain at around 1 % GDP in 2020 and 2021, according to the MoF DBP forecast. Government debt is set to decrease further and is forecast to reach just above 60 % of GDP in 2020. It is currently estimated that the structural position of general government will remain close to balanced position and that the policy stance will be neutral over the medium-term. Nevertheless, many of the measures, adopted in 2019, support an increase in structural expenditure (wages in the public sector, social transfers) and decrease in structural revenue (restructuring personal income tax).

Fiscal framework and national fiscal rules (Fiscal Council)

FC assessed the latest budgetary plans to be in line with domestic and EU fiscal rules but identified several negative risks. They chiefly relate to the credibility of fiscal projections beside negative macroeconomic risks. FC indicated inconsistencies in budgetary documents considering the financial consequences of certain measures that have been adopted recently or are in the process of being adopted by the Parliament. Among these, measures with positive impact on the balance have been included in budgetary projections, while some measures with negative impact have not been considered. Even more importantly in the view of FC, not enough emphasis has been given to long-term public finance sustainability. Measures adjusting the pension system parameters have been adopted that may further increase the public finance burden in the medium-term and measures are being prepared that may increase the uncertainty regarding the financing of the public health system.

Chart 1:

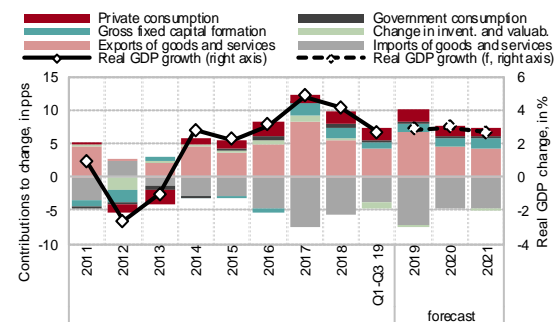
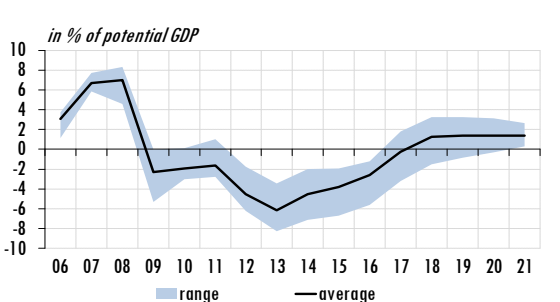
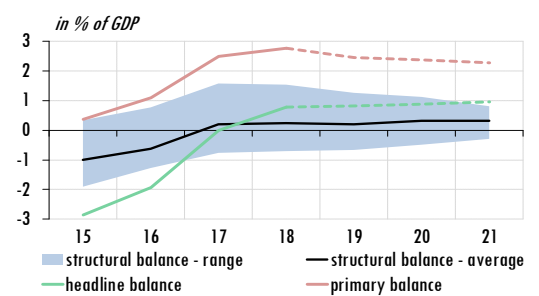


Chart 2:



Source: IMAD, IMF, OECD, EC, MoF, Fiscal Council.

Chart 3:



Sources: SORS, IMAD, EC, OECD, IMF, MoF, Fiscal Council calculations.

Key indicators

| | | 2016 | 2017 | 2018 | 2019 f | 2020 f | 2021 f | Source/ notes |
|---------------------------------|------------|------|------|------|--------|--------|--------|------------------|
| Real GDP growth rate | [% y-to-y] | 3.1 | 4.8 | 4.1 | 2.8 | 3.0 | 2.7 | 1 |
| Output Gap – FC est. | [%] | -2.6 | -0.2 | 1.2 | 1.4 | 1.4 | 1.4 | 2 |
| GG balance – MOF target | [% of GDP] | -1.9 | 0.0 | 0.8 | 0.8 | 0.9 | 1.0 | 3 |
| GG primary balance – MOF target | [% of GDP] | 1.1 | 2.2 | 2.8 | 2.4 | 2.4 | 2.3 | 3 |
| GG structural balance – FC est. | [% of GDP] | -0.6 | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 2 |
| GG debt – MOF target | [% of GDP] | 78.7 | 74.1 | 70.4 | 66.3 | 62.1 | n/a | 3 |

Sources:

1 – Statistical Office of the Republic of Slovenia; forecast: IMAD, Autumn Report 2019; 2 – Fiscal Council: average and range (Chart 2 and base for Chart 3) of estimates of institutions (IMF, OECD, EC, IMAD, MoF) and of statistical estimates 3 – Ministry of Finance f - forecast

Key messages:

- AIReF has endorsed the macro scenario underlying the Draft Budgetary Plan for 2020
- Fiscal plans for 2019-2020 seem feasible but they are based on a non-policy change scenario
- A credible medium – term fiscal plan needs to be carried out to reduce public debt

Macroeconomic outlook

AIReF has endorsed the macroeconomic scenario underlying the Draft Budgetary Plan (DBP) for 2020. The GDP scenario presented in the Budgetary Plan is in line with AIReF's forecasts. AIReF believes that the Government has behaved prudently as it presents a scenario with no policy change, consistent with the situation of a caretaker government; and it has incorporated the significant impact of the revision of the National Accounts series conducted by the INE into its analysis. Growth profiles for 2019 and 2020 and their composition are considered plausible (Chart 1).

Short-term fiscal outlook

The Budgetary Plan places the deficit for 2020 at 1.7% GDP, which would entail a reduction of 0.8% in the 2019-2020 period. This result is in line with AIReF's baseline scenario (Chart 2).

AIReF's estimates imply, as in the Budgetary Plan, a no-policy-change scenario which, however, includes a revaluation of pensions with the CPI, a rise of public employees' salaries according to the agreement with the trade unions and the implementation of some of the recommendations arising from the Spending Review announced last April in the SPU 2019-2022. In this regard, it should be noted that AIReF considers the Government's quantification of the effects of these recommendations to be tight, while it has doubts about their final impact, which will depend on the speed with which the necessary procedural and policy changes get off the ground.

Most recent data, released after the publication of the DBP, has led AIReF to an upward revision of its deficit forecast for 2019 to 2.2% GDP.

Medium-term fiscal outlook

As in the past four years, the Budgetary Plan foresees a reduction in the debt-to-GDP ratio. AIReF considers the debt projection of the Budgetary Plan to be unlikely for 2019 and only just feasible for 2020 (see chart 3). After five years of strong economic growth and historically low interest rates, the debt-to-GDP ratio has virtually stagnated. The interest rates drop has led to a significant reduction in the debt burden. These savings are a great opportunity to accelerate the pace of deleveraging. The Budgetary Plan expects non-compliance with the annual structural adjustment of 0.65% GDP required for 2019 and 2020 and computable expenditure growth limited to 0.6% in 2019 and 0.9% in 2020. AIReF's estimates ratify this non-compliance, despite considering that the structural deficit is lower than estimated in the Budgetary Plan.

Fiscal framework and national fiscal rules

AIReF considers that the starting point of the budgetary process, should be the setting of stability and debt targets for the 2020-2022 period leading to a public debt reduction plan. AIReF has recommended as well: the publication of the information underpinning the decisions setting the fiscal targets; that the fiscal strategy takes into account the European fiscal framework and reports about its compliance.

Key indicators

| | | 2018 | 2019 f | 2020 f |
|-----------------------------|------------|-------------|------------|------------|
| Real GDP growth rate-DBP | [% y-to-y] | 2.4 | 2.1 | 1.8 |
| Real GDP growth rate-IFI | [% y-to-y] | 2.4 | 2.1 | 1.9 |
| Output Gap -DBP | [%] | 0.5 | 1.3 | 1.5 |
| Output Gap - IFI | [%] | [-1.5;-0.3] | [-1.0;0.1] | [-0.8;0.3] |
| GG balance – DBP | [% of GDP] | -2.5 | -2.0 | -1.7 |
| GG balance – IFI | [% of GDP] | -2.5 | -2.2* | -1.7 |
| GG debt - DBP | [% of GDP] | 97.6 | 95.8 | 94.0 |
| GG debt – IFI | [% of GDP] | 97.6 | 95.9 | 94.6 |
| GG structural balance – IFI | [% of GDP] | -1.7 | -1.3 | -1.3 |

*According to data released after the publication of the DBP

Chart 1: Real GDP (% change)

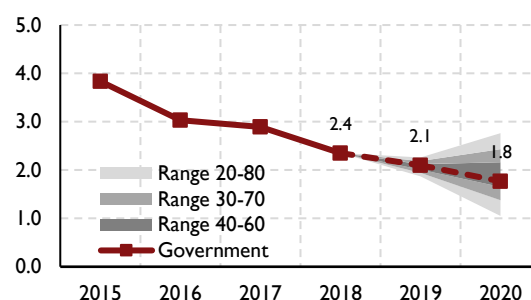


Chart 2: General government balance (% GDP)

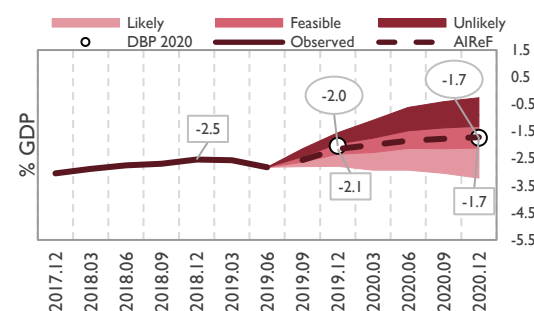
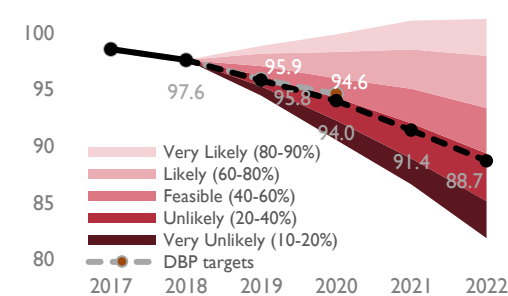


Chart 3: Debt path (% GDP)



Key messages:

- We forecast real GDP growth of 1.2 per cent in 2019, rising to 1.4 per cent in 2020 and 1.6 per cent in 2021.
 - We expect public sector borrowing of £29.3 billion in 2019-20 (1.3 per cent of GDP), falling gradually to £13.5 billion in 2023-24.
 - The Government is on course to meet its three fiscal targets on the basis of our latest central forecast.
 - Its 'fiscal objective' to balance the budget by the middle of the next decade looks more challenging.
 - Our forecasts are based on broad-brush assumptions regarding the UK's exit from the EU. The forecasts also assumed that the UK would leave on 29 March 2019, which was Government policy when we published our forecast.
- Parliament voted to extend Article 50 1 day later.

Macroeconomic outlook

The economy ended 2018 growing a little less strongly than we expected in our previous forecast in October 2018. Survey indicators of current activity have weakened materially, in part reflecting heightened uncertainty related to Brexit. As a result, we have revised our forecast for GDP growth this year down to 1.2 per cent. But we have not altered our assessment of the outlook for potential output, so our medium-term forecast is little changed: GDP growth still settles down to around 1½ per cent a year.

Short-term fiscal outlook

Public sector net borrowing has fallen from its post-crisis peak of 9.9 per cent of GDP (£153.1 billion) in 2009-10 to 1.1 per cent of GDP (£24.0 billion) in 2018-19. With economy running a little above potential, we judge that the 2018-19 structural deficit (which excludes the effect of the economic cycle) is close to the headline deficit at 1.2 per cent of GDP. The deficit is expected to rise by around £5 billion in 2019-20.

Medium-term fiscal outlook

We expect the deficit increase slightly in 2019-20 to 1.3 per cent of GDP, fall sharply to 0.9 per cent of GDP, and then fall slowly over the three years to 2023-24. Our central forecast is for a structural deficit of 0.8 per cent of GDP in 2020-21, below the 2 per cent of GDP ceiling set in the Government's 'fiscal mandate'. We expect debt to fall as a share of GDP over the forecast period from 83.1 per cent of GDP in 2018-19 to 73.0 per cent in 2023-24.

Fiscal framework and national fiscal rules

The Government has set itself three fiscal rules that require:

- the structural deficit (cyclically adjusted public sector net borrowing) to be below 2 per cent of GDP by 2020-21;
- public sector net debt to fall as a percentage of GDP in 2020-21; and
- welfare spending (excluding the state pension and payments closely linked to the economic cycle) to be below a welfare cap that was set for 2022-23, in line with our November 2017 forecast for that year.

Our latest central forecast shows all three targets on course to be met, with the deficit target met by a margin of 1.2 per cent of GDP. The Government's longer-term aim of balancing the public finances by the middle of the next decade looks more challenging, as the pace of deficit reduction slows towards the end of the forecast and as age-related pressures on the public finances are set to mount.

Chart 1: Real GDP fan chart

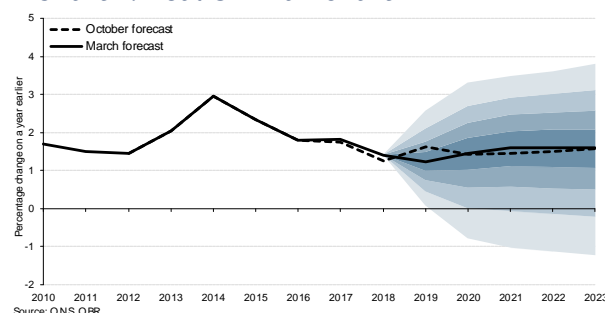


Chart 2: Public sector net borrowing

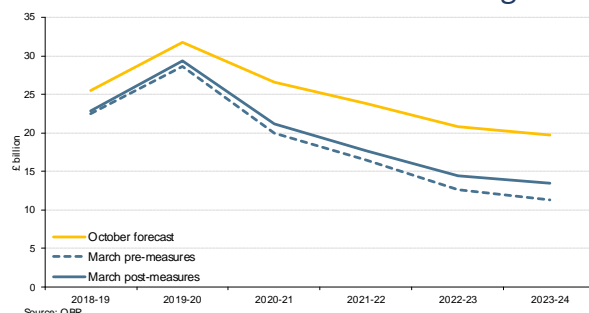
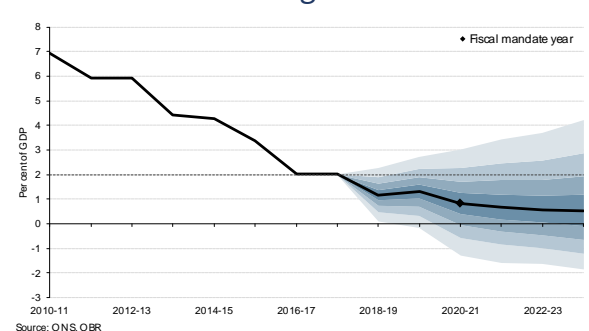


Chart 3: Cyclically adjusted public sector net borrowing fan chart



Key indicators

| | | 2018-19f | 2019-20f | 2020-21f | 2021-22f | 2022-23f | 2023-24f |
|-----------------------------------|-------------------------|----------|----------|----------|----------|----------|----------|
| Real GDP | [% y-on-y] | 1.4 | 1.2 | 1.4 | 1.6 | 1.6 | 1.6 |
| Output Gap | [% of potential output] | 0.2 | -0.1 | -0.2 | -0.1 | 0.0 | 0.0 |
| Public sector net borrowing | [% of GDP] | 1.1 | 1.3 | 0.9 | 0.7 | 0.6 | 0.5 |
| Cyclically adjusted net borrowing | [% of GDP] | 1.2 | 1.3 | 0.8 | 0.7 | 0.6 | 0.5 |
| Public sector net debt | [% of GDP] | 83.3 | 82.2 | 79.0 | 74.9 | 74.0 | 73.0 |
| Real public spending | [% y-on-y] | 0.3 | 1.5 | 1.0 | 1.1 | 1.3 | 1.7 |

Sources/notes:

Forecasts and charts all from the March 2019 Economic and Fiscal Outlook.

Contact Details

| | | | |
|-----------------|--|--|-----------------------|
| Austria | office@fiskalrat.at | www.fiskalrat.at | +43-1-40420-7473 |
| Bulgaria | info@fiscalcouncil.bg | www.fiscalcouncil.bg | +359 (0)2 939 2192 |
| Cyprus | info@fiscalcouncil.gov.cy | www.fiscalcouncil.gov.cy | +357 22 606642 |
| Czech Republic | Michal.Hlavacek@unrr.cz | www.rozpocetovarada.cz | +420 736 524 520 |
| Denmark | dors@dors.dk | www.dors.dk | +45 51 51 28 00 |
| Estonia | info@eelarvenoukogu.ee | www.eelarvenoukogu.ee | +372 6680 661 |
| Finland | fiscalcouncil@vtv.fi | www.vtv.fi & www.talouspolitiikanarviointineuvosto.fi | |
| France | contact@hcfp.fr | www.hcfp.fr | + 00 33 1 72 34 17 64 |
| Germany | tobias.goerbert@fau.de | www.stabilitaetsrat.de/EN/Beirat | +49 911 5302 376 |
| Greece | hfisc@hfisc.gr | www.hfisc.gr | +30 211 103 9600 |
| Hungary | kt@parlament.hu | www.parlament.hu/web/koltsegetvesi-tanacs | +3614414058 |
| Ireland | admin@fiscalcouncil.ie | www.FiscalCouncil.ie | +353 1 863 2005 |
| Italy | segreteria@upbilancio.it | www.upbilancio.it | +39 06 6760 6290 |
| Latvia | info@fdp.gov.lv | www.fdp.gov.lv | +37167083650 |
| Lithuania | ifi@ifi.lt | www.ifi.lt | +370 5 204 7207 |
| Luxembourg | info@cnfp.lu | www.cnfp.lu | +352 247 82710 |
| Malta | info@mfac.org.mt | www.mfac.org.mt | +356 2247 9210 |
| The Netherlands | svv@cpb.nl | www.cpb.nl | +31611648608 |
| Portugal | cfp@cfp.pt | www.cfp.com | +351 211 024 400 |
| Romania | secretariat@consiliulfiscal.ro | www.consiliulfiscal.ro | +40 213184826 |
| Slovakia | sekretariat@rrz.sk | www.rozpocetovarada.sk | +421 2 5787 4959 |
| Slovenia | gp.fs@fs-rs.si | www.fs-rs.si | +386 1 4785870 |
| Spain | Secretaria.presidente@airef.es | www.airef.es | +34 910 100 599 |
| United Kingdom | Mark.Dembowicz@obr.uk | www.obr.uk | +44 203 334 6101 |

