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ANNEX

to the

COMMUNICATION FROM THE COMMISSION

Assessment of action taken
by SPAIN, FRANCE, MALTA, THE NETHERLANDS and SLOVENIA

in response to the Council Recommendations of 21 June 2013 with a view to bringing an end to the situation of excessive government deficit, and

by BELGIUM

in response to the Council Decision to give notice of 21 June 2013

ANNEX: ASSESSMENT OF ACTION TAKEN BY COUNTRY

1. BELGIUM

The headline balance planned in the Draft Budgetary Plan in 2013 is below the 3% of GDP deficit reference value. According to the Commission 2013 Autumn Forecast, the headline deficit is currently expected to be slightly above the target of 2.7% of GDP set in the Council Decision to give notice of 21 June 2013. The fiscal effort in 2013 was estimated at ¾% of GDP at the time of the Council Decision to give notice. Since that decision, both the federal government and sub-federal entities have taken additional measures to keep their budgets on track. The fiscal effort is currently estimated at 0.8% of GDP. However, when corrected for the downward revision in potential growth since the time of the Council Decision as well as for revenue shortfalls compared to the forecast underlying the Council Decision, the adjusted structural improvement is estimated at 1% of GDP, in line with the effort of 1% of GDP required by the Council. Therefore Belgium can be considered to have taken effective action in compliance with the Council Decision of 21 June 2013. This conclusion is supported by a bottom-up assessment which estimates the size of the additional fiscal effort for 2013 on the basis of the discretionary revenue measures and the expenditure developments under the control of the government[1] between the baseline scenario underpinning the Council Decision and the Commission Autumn Forecast, which shows that Belgium has taken additional measures for 2013 adding up to over ¼% of GDP, which is in line with the amount of measures deemed necessary to reach the structural target spelled out in the Council Decision.

2. SPAIN

The Commission 2013 Autumn Forecast projects the headline deficit to decrease to 6.8% of GDP in 2013 (6.5% net of the costs of bank recapitalisation within the framework of the financial sector programme), above the target recommended by the Council on 21 June 2013, and to drop further to 5.9% of GDP in 2014, marginally higher than the target recommended by the Council. The respective improvement in the structural balance, corrected for revisions in potential output growth and for unexpected revenue windfalls/shortfalls, falls short of the efforts recommended by the Council, especially for 2014. Based on a bottom-up assessment, which estimates the size of the additional effort for 2013 on the basis of the discretionary revenue measures and the expenditure developments under the control of the government between the baseline scenario underpinning the Council Recommendation and the Commission Autumn Forecast, no additional net consolidation measures were taken in 2013, in line with what was deemed necessary to reach the structural targets spelled out in the EDP recommendation. For 2014 the bottom-up estimate of the fiscal effort is around 1¾% of GDP, which would fall somewhat short of what was deemed necessary to reach the structural targets spelled out in the EDP recommendation. Accordingly, whereas in 2013 it appears that Spain will comply with the Council EDP recommendation, provided that risks to the budgetary target are dispelled, the assessment for 2014 points to risks of non-compliance.

For 2015 and 2016, Spain has not yet specified sufficient measures to bring the headline government deficit in line with the targets recommended by the Council. Moreover, in 2015, the potential expiry of temporary measures taken in previous years widens the gap relative to

[1] Excluding notably unemployment benefit payments related to the evolution of the number of unemployed and changes in interest expenditure related to interest and exchange rate changes.

the EDP target. However, the budgetary adjustment in 2015 and 2016 falls far short of the revised EDP recommendation.

3. FRANCE

The Commission forecast anticipates that the nominal deficit will turn out higher than recommended in both 2013 and 2014. The changes in the structural balance underlying the projected headline numbers are estimated at 0.9% and 0.7% of GDP, respectively. However, when correcting for revisions to potential GDP growth estimates and shortfalls in tax receipts compared with the forecast at the time the Council recommendation was issued, the structural effort comes in at 1.3% and 0.8% of GDP. As far as the 2013 budgetary execution is concerned, the latest outturn data point to significant revenue shortfalls compared to spring. These may stem from lower tax richness of economic activity but also from a lower budgetary impact of discretionary measures than estimated initially. However, no major revisions to the expected budgetary impact of these measures have been made so far, as according to the authorities such revisions would not be justified until full-year data for 2013 are available. In this respect, the Commission forecast factors in a slight shortfall relative to official estimates, but it cannot be excluded that the outturn will be even worse. The corrected structural effort for 2014 also appears just in line with the Council recommendation. However, the composition of fiscal tightening underlying the Commission forecast is somewhat at odds with that outlined in the Draft Budgetary Plan. Indeed, the latter aims at spending cuts accounting for 80% of total adjustment (as measured by the improvement in the structural balance) while the Commission forecast projects that savings will make up less than half of this notably due to expected expenditure overruns and a different treatment of one-off revenue measures. A bottom-up assessment shows that the overall size of measures implemented in 2013 is somewhat below the amount of 1½% of GDP referred to in the Council recommendation. For 2014, the fiscal effort based on the bottom-up analysis falls slightly short of the 'above 1% of GDP' amount of measures deemed necessary to reach the structural target set out in the recommendation, which is another indication of the uncertainties surrounding the fiscal outlook. Regarding 2015, the Draft Budgetary Plan projects the deficit to reach 2.8% of GDP, in line with the Council recommendation. However, the Commission forecast expects it to be 3.7% of GDP under the customary no policy change assumption, implying that a significant set of measures on top of those already specified will be needed to ensure that the target for 2015 is reached. Overall, although there are both upside and downside risks to the expected budgetary outcome and thus to the underlying improvement in the structural balance, France can be considered to have taken effective action in compliance with the Council recommendation of 21 June 2013.

4. MALTA

For 2013, on the basis of the Commission 2013 autumn forecast, the headline deficit is in line with the target included in the EDP recommendation. However, the fiscal effort stands at 0.3% of GDP. When adjusted for the downward revision in potential output growth since the time when the EDP recommendation was issued and the impact of the composition of economic growth on revenue, the adjusted change in the structural balance (0.5% of GDP) falls slightly short of the recommended annual structural effort (0.7% of GDP). Therefore, while Malta can be considered to have complied so far with the Council recommendation of 21 June 2013, there is a risk that the correction of the deficit may not be achieved, owing to the apparent lack of a sufficient effort to support it. The situation will have to be reassessed against the spring 2014 notified data. By contrast, pending the assessment of the forthcoming 2014 budget, the EDP requirements for 2014 are not fulfilled both in nominal and structural terms as the Commission deficit forecast remains above the EDP target of 2.7% of GDP and the adjusted structural balance (0.34% of GDP) is lower than the recommended annual fiscal effort (0.7% of GDP) in 2014. However, the projected deficit for 2014 (3.4% of GDP vs the recommended 2.7% of GDP) does not incorporate the consolidation measures in the 2014 budget, the details of which were not available by the cut-off date. It should be noted that, taken at face value, the measures included in the DBP would reduce the deficit forecast by 0.2% of GDP. This would still be insufficient to comply with the EDP recommendation.

5. THE NETHERLANDS

For 2013, the headline deficit is expected to be below the target of 3.6% of GDP specified in the Council's EDP recommendation. For 2013, the EDP requirements have been fulfilled with respect to both the headline and structural deficit targets and effective action in compliance with the Council recommendation of 21 June 2013 has been delivered. For 2014, the headline deficit is forecast to remain above the recommended nominal target of 2.8% of GDP. On the basis of the 2013 Autumn Forecast, the change in the structural balance corrected for changes in potential growth and unexpected revenue shortfalls is 0.5% of GDP, below the recommended effort of around 0.7% of GDP in the EDP recommendation. A bottom-up assessment, which estimates the size of the fiscal effort for 2014 on the basis of the additional revenue measures and the expenditure developments under the control of the government between the EDP scenario and the Commission 2013 Autumn Forecast, shows that the Netherlands has taken additional measures for 2014 of around 1% of GDP, which is in line with the amount of measures deemed necessary to reach the structural targets spelled out in the EDP recommendation.

6. SLOVENIA

The headline deficit targets planned in the Draft Budgetary Plan at 5.6% and 6.7% of GDP in 2013 and 2014, respectively, are above the EDP headline deficit targets of 4.9% and 3.3% of GDP for the same years. The Commission 2013 Autumn Forecast also projects deficits above the targets recommended by the Council in June 2013. According to the Commission 2013 Autumn Forecast, the change in the structural balance is estimated at -0.1% and 0.7% of GDP in 2013 and 2014. However, when corrected for the revenue shortfalls and revisions in potential growth calculations, the corrected structural improvement is estimated at 0.6% of GDP in both 2013 and 2014. While this is slightly short of the 0.7% of GDP annual structural effort recommended for 2013, it is just above the 0.5% of GDP recommended for 2014. Based on a bottom-up assessment, which estimates the size of the additional fiscal effort on the basis of the discretionary revenue measures and the expenditure developments under the control of the government between the baseline scenario underpinning the Council Recommendation and the Commission 2013 Autumn Forecast, the overall fiscal effort for 2013 amounts to around 1.1% of GDP, i.e. just above the 1% of GDP of additional consolidation measures mentioned in the June 2013 EDP recommendation as consistent with reaching the structural target for 2013. For 2014, the bottom-up analysis assesses the overall size of the consolidation measures adopted after the June 2013 EDP recommendation at around 1.4% of GDP. This falls slightly short of 1½% of GDP of additional consolidation measures mentioned in June 2013 EDP recommendation as consistent with reaching the structural target for 2014. Against this background, based on current information it appears that Slovenia has taken effective action in 2013 and seems on track to delivering the recommended structural improvement in 2014, although with no margin.