European Commission assesses Draft Budgetary Plans 2015: seven Member States at risk of non-compliance

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The European Commission has completed its assessment of 16 euro area countries' 2015 Draft Budgetary Plans, focusing on their compliance with the provisions of the Stability and Growth Pact. The Commission has found five countries’ plans to be compliant, four to be broadly compliant, and seven to be at risk of non-compliance with the Pact. The exercise covered all euro area countries except Greece and Cyprus, which are under economic adjustment programmes.

Vice-President Valdis Dombrovskis, responsible for the Euro and Social Dialogue said: "Over the past years significant progress was achieved in terms of restoring financial stability and sustainability of public finances. It is now the right time to move forward with ambitious structural reforms to ensure sustainable growth and job creation. For this we need leadership and commitment both at the EU and Member States level."

Pierre Moscovici, European Commissioner for Economic and Financial Affairs, Taxation and Customs, said: “We have carefully assessed the budgetary plans of 16 euro area countries, highlighting risks where we see them. We will decide in early March whether any further steps are necessary under the Stability and Growth Pact. By then we will have a clearer picture of whether governments are delivering on their reform commitments. It is in the interests of the euro area that they do so. Everyone must play their part to strengthen economic recovery."

The Commission already concluded in late October that none of the Draft Budgetary Plans for 2015 showed “particularly serious non-compliance” with the requirements of the Stability and Growth Pact, which aims to ensure sound public finances in the EU.

For five countries (Germany, Ireland, Luxembourg, the Netherlands and Slovakia), the Draft Budgetary Plans are found to be compliant with the Pact, while for four countries (Estonia, Latvia, Slovenia and Finland), the plans are found to be broadly compliant. However, for seven countries (Belgium, Spain, France, Italy, Malta, Austria and Portugal), the Commission’s opinions point to a risk of non-compliance. The Commission asks the latter two groups of countries to take the necessary measures within the national budgetary process to ensure that the 2015 budget will be compliant with the Pact.

In some cases, the risk of non-compliance has implications for possible steps under the Excessive Deficit Procedure. In the cases of France, Italy and Belgium, the Commission will examine the situation in early March 2015. This will be done in the light of the finalisation of the budget laws and the expected specification of the structural reform programme announced by the national authorities in their letters to the Commission on 21 November. These three Member States have committed at the highest level of government to adopt and implement growth-enhancing structural reforms by early 2015. These are expected to have an impact on the sustainability of public finances over the medium term.

Overall euro area deficit expected to fall

In addition to the country-specific analyses, the Commission assessed the overall budgetary situation and fiscal stance in the euro area as a whole. The aggregate budget deficit for the 16 countries, based on the Member States’ plans, after falling below 3% of GDP in 2013 for the first time since 2008, is expected to fall further to 2.6% of GDP in 2014 and 2.2% of GDP in 2015. The Commission’s own assessment, set out in the autumn economic forecast, points to a slightly smaller reduction of 0.2 percentage points, to 2.4% in 2015.

The aggregate debt ratio for these countries is planned to remain virtually unchanged from the value estimated for the current year at around 92.5% of GDP, according to the Draft Budgetary Plans. The Commission projects a slight increase, from 93.1% in 2014 to 93.6% in 2015.

Broadly neutral fiscal stance should be maintained
In aggregate terms, fiscal consolidation came to a halt in these sixteen countries in 2014, and the Commission’s forecast points to a broadly neutral fiscal stance (neither tightening nor loosening) in 2015 also. This appears to strike an appropriate balance between fiscal sustainability requirements, underscored by high and increasing government debt ratios, and the need to strengthen the fragile recovery underway in the euro area. Maintaining a neutral aggregate fiscal stance, while some Member States are called on to increase their efforts in order to comply with the Stability and Growth Pact, implies a degree of fiscal support coming from the use of the fiscal space available elsewhere. This also strongly underlines the case for the ambitious Investment Plan for Europe presented by the Commission on 26 November.

As regards the composition of public finances, policy actions taken to reduce the tax burden on labour are steps in the right direction. However, the composition of expenditure shows little if any progress towards being more growth–friendly. This underscores the need to better align Member States’ policies with the priorities of the Commission’s Jobs, Growth and Investment Package.

**Second round this autumn**

This was the second time that the Commission assessed Draft Budgetary Plans, which present the main aspects of the budgetary situation of the general government and its sub-sectors for the year ahead. All euro area Member States not under a macroeconomic adjustment programme had to submit their draft budgetary plans by 15 October. The exercise is rooted in the so-called Two-Pack legislation, which entered into force in May 2013. Its aim is to increase the effectiveness of economic and budgetary policy coordination in the euro area.

**See also:**

Commission Opinions on the 2015 Draft Budgetary Plans: MEMO/14/2226

The EU’s economic governance explained: MEMO/14/2180


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