European Commission - Press release

Stability and Growth Pact: update on the fiscal situation of Spain and Portugal

Brussels, 7 July 2016

Commission confirms that Spain and Portugal will not correct their excessive deficits by the recommended deadline

As announced in its Communication of 18 May, the Commission came back today to the fiscal situation of Spain and Portugal. The College of Commissioners confirmed that Portugal did not correct its excessive deficit by the deadline of 2015 and that Spain is unlikely to correct its excessive deficit by the 2016 deadline. These deadlines were set by the Council in 2013. The College therefore adopted recommendations for Council decisions under Article 126(8) of the Treaty on the Functioning of the European Union (TFEU) establishing the absence of effective action by Spain and Portugal for the years 2014 and 2015. Both Spain and Portugal will require new deadlines to correct their excessive deficits and the adoption of today's recommendations is the necessary legal step to do so. The Commission will propose a new fiscal adjustment path for each country at a subsequent stage.

Vice-President **Valdis Dombrovskis**, responsible for the Euro and Social Dialogue, said: "*Spain and Portugal have come a long way since the beginning of the crisis, thanks to important fiscal adjustments and major reforms to regain competitiveness. However, lately the two countries have veered off track in the correction of their excessive deficits and have not met their budgetary targets. We stand ready to work together with the Spanish and Portuguese authorities to define the best path ahead. Reducing the high deficit and debt levels is a pre-condition for sustainable economic growth in both countries.*"

Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *"I trust that EU finance ministers will soon confirm our assessment. The Commission has always acted, is acting now and will continue to act within the rules of the Stability and Growth Pact. These are complex but intelligent rules that must be applied in an intelligent way by the Commission and the Council. We will work with Spain and Portugal to reach a shared understanding of the policy commitments that should be made."*

The assessment of effective action only looks at past fiscal data for these two countries. While both countries have achieved significant fiscal consolidation since their deficits peaked at the height of the financial crisis, this has fallen short of the targets set by the Council. This is true for both the headline figures and the structural fiscal effort.

- Spain's headline deficit peaked at 11% in 2009, before falling to 10.4% of GDP in 2012 and 5.1% in 2015, while the recommended target for 2015 was 4.2% of GDP. The cumulative structural fiscal effort over the 2013-2015 period is estimated at 0.6% of GDP, significantly below the 2.7% of GDP recommended by the Council. The level of public debt has been relatively stable at 99.3% of GDP in 2014 and 99.2% in 2015.
- Portugal's headline deficit declined from 11.2% of GDP in 2010 to 4.4% in 2015, while the recommended target for 2015 was 2.5% of GDP. The cumulative structural fiscal effort over the 2013-2015 period is estimated at 1.1% of GDP, significantly below the 2.5% of GDP recommended by the Council. After peaking at 130.2% of GDP in 2014, the level of public debt still remained high at 129.0% of GDP in 2015.

The Commission recognises that both countries have carried out significant structural reforms in past years, as documented in their national reform programmes and in the Commission's dedicated Country Reports for Spain and Portugal.

Once the Council decides under Article 126(8), the Commission is legally obliged to present within 20 days a proposal for a fine. It must also propose a suspension of part of the commitments of EU Structural and Investment Funds (ESIF). The maximum amounts of this fine and the partial suspension of funding commitments are set out in the relevant regulations and can be reduced if justified.

For the fine in particular, the Commission may recommend that the Council reduces the amount or cancel it altogether. This can happen either on the grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned, which would need to be submitted to the Commission within 10 days of the Council's adoption of its Article 126(8) decision.

Today's recommendations to the Council complement the package of country-specific recommendations proposed by the Commission in May and take into account the latest information available. The Commission announced at that time that it would come back to the fiscal situations of Spain and Portugal in early July.

These recommendations do not prejudge possible future decisions under Article 126 TFEU. EU finance ministers are expected to discuss these recommendations, while the Commission continues to monitor the implementation of the Stability and Growth Pact.

Overall, it is worth recalling that the state of public finances across the European Union and the euro area in particular has improved dramatically in recent years. The general government deficit in the euro area as a whole decreased from 6.3% of GDP in 2009 (EU: 6.7%) to 2.1% of GDP in 2015 (EU: 2.4%) to a forecast 1.9% in 2016 (EU: 2.1%) and 1.6% in 2017 (EU: 1.8%). The debt-to-GDP ratio meanwhile is forecast to continue declining gradually from 94.4% in 2014 to 91.1% in the euro area in 2017 (EU: 85.5%). There are now only six EU Member States in the corrective arm of the Stability and Growth Pact, down from 24 Member States in 2011.

Background:

Portugal has been in the corrective arm of the Stability and Growth Pact since December 2009 and was recommended to correct its excessive deficit by 2015. Portugal has missed the deadline to correct its excessive deficit since its 2015 deficit came out at 4.4% of GDP, above the Treaty reference value of 3.0% of GDP and above the 2.5% recommended by the Council in 2013. Furthermore, the cumulative fiscal effort implemented by Portugal in the period from 2013 to 2015 is estimated to have fallen significantly short of the one recommended by the Council. This leads to the conclusion that the response of Portugal to the Council Recommendation has been insufficient.

Spain has also been in the corrective arm of the Pact since 2009 and was recommended to correct its excessive deficit by 2016. Spain missed its intermediate headline deficit targets both in 2014 and 2015 and, according to the Commission 2016 spring forecast, it is expected to miss the headline deficit target for 2016 as well. Therefore Spain is not set to achieve a timely and durable correction of its excessive deficit by 2016. Moreover, the cumulative fiscal effort over the 2013-2015 period fell significantly short of the one established in the June 2013 Council recommendation. This leads to the conclusion that Spain has not taken effective action in response to the Council recommendation under the Excessive Deficit Procedure.

For more information:

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Situation of Member States with regard to the Stability and Growth Pact

Box. Situation of Member States with regard to the Stability and Growth Pact, as of 7 July 2016	
No Excessive Deficit Procedure	Austria, Belgium, Bulgaria, Czech Republic, Denmark, Cyprus, Estonia, Germany, Hungary, Italy, Ireland, Latvia, Lithuania, Luxembourg, the Netherlands, Romania, Slovakia, Slovenia, Sweden, Malta, Poland, Finland
Ongoing Excessive Deficit Procedure	Croatia, France, Greece, Portugal, Spain, the United Kingdom

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