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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, AND THE EUROPEAN CENTRAL BANK

on the 2021 Draft Budgetary Plans: Overall Assessment

Executive summary

This Communication summarises the Commission's assessment of the 2021 Draft Budgetary Plans submitted by euro area Member States as required by Regulation (EU) No 473/2013.

The Commission's assessment takes into account the ongoing health crisis, the high level of uncertainty and the severe economic downturn resulting from the COVID-19 outbreak. The assessment is based on the fiscal policy recommendation adopted by the Council on 20 July 2020 and takes into account the activation of the general escape clause of the Stability and Growth Pact. As indicated in the Annual Sustainable Growth Strategy 2021, Member States should continue to provide targeted and temporary fiscal support in 2021 to effectively address the pandemic, sustain the economy, and support the recovery. When economic conditions allow, fiscal policies should aim at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. This Communication summarises the assessment of the individual Draft Budgetary Plans and the overall budgetary situation in the euro area, including the aggregate fiscal stance.

The 2021 Draft Budgetary Plans, including the assessment of the fiscal stance for the euro area as a whole, can be summarised as follows:

1. The euro area economy continues to be in the grip of the COVID-19 pandemic. Real GDP is forecast to decline by almost 8% in 2020. Despite a forecast return to growth in 2021, the recovery is expected to be incomplete and will differ widely across Member States. The economy is expected to continue operating below its potential. Uncertainty and risks remain exceptionally large.
2. The necessary sizable temporary measures taken in 2020 to cushion the effect of the pandemic in the euro area weigh on the aggregate fiscal position, which is set to improve slightly in 2021. The Draft Budgetary Plans point to an aggregate headline deficit of almost 6% of GDP and a debt-to-GDP ratio of around 100% in 2021, broadly in line with the Commission 2020 autumn forecast. The recent resurgence of the virus in Europe implies downside risks that could worsen economic and fiscal outcomes in 2021 compared to the estimates in the Draft Budgetary Plans.
3. Member States have taken sizeable fiscal measures in response to the pandemic (4.2% of GDP in 2020 and 2.4% of GDP in 2021). Most emergency measures have aimed at addressing the public health situation, and compensating workers and firms for income losses due to lockdown measures and supply chain disruptions (3.4% of GDP in 2020 and 0.9% of GDP in 2021). Other measures, such as indirect tax cuts or extra public works, have focused more broadly on supporting the economic recovery (0.8% of GDP in 2020 and 1.5% of GDP in 2021). Member States also provided ample liquidity support to households and businesses in the form of guarantees or suspension of tax and social security contributions. In some cases, limited fiscal space constrained the size of the fiscal response. Member States with stronger fiscal positions provided generally more direct budgetary support, while Member States with weaker fiscal positions tended to rely more on liquidity support. Such measures do not have an immediate impact on the headline deficit, but constitute contingent liabilities.
4. The euro area fiscal stance in both 2020 and 2021 appears supportive when adjusted for the unwinding of temporary emergency measures as planned in the Draft Budgetary Plans (+1.1% of GDP in 2020 and +1.4% of GDP in 2021). However, in light of the recent resurgence of the pandemic in Europe, the envisaged withdrawal of emergency measures in 2021 is subject to increased uncertainty. Member States are expected to extend further emergency support to provide a necessary lifeline to the economy, on top of the current budgetary plans already reflected in the Commission forecast.
5. Financing from the Recovery and Resilience Facility can be expected to provide a significant additional fiscal impulse, compared with what has been included in the Member States'

current plans and forecasts. Since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission 2020 autumn forecast assumes in the budgetary projections for 2021 the 10% pre-financing of Recovery and Resilience Facility grants. This pre-financing is treated as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. Moving forward, the Recovery and Resilience Facility is expected to have a macro-relevant impact on economic activity and public finances in many Member States and the euro area as a whole.

6. Individual fiscal stances, very accommodative in 2020, appear still supportive in almost all Member States in 2021, once corrected for the phasing out of temporary emergency measures. While emergency measures represent over one third of total measures foreseen for 2021 in the Draft Budgetary Plans, the majority of measures aim at supporting the economic recovery. Expenditure financed via grants under the Recovery and Resilience Facility can be expected to provide a significant additional fiscal impulse without having an impact on Member States' deficit and debt levels.

7. Member States should avoid withdrawing fiscal support abruptly. The mix of large output losses and downside risks calls for continued fiscal policy support in 2021.

8. Support measures should be well targeted and temporary. Member States currently plan a combination of temporary and permanent measures in 2021. Permanent measures that are not planned to be financed by revenue increases or compensatory expenditure reductions may affect fiscal sustainability in the medium term.

9. Credible medium-term fiscal strategies are particularly important to ensure fiscal sustainability, in particular in the case of highly-indebted Member States. Implementation of well-designed fiscal measures and reform packages, not least through Recovery and Resilience Plans, is important to address the challenges identified in the relevant country-specific recommendations.

Against this backdrop, the Commission Opinions on the 2021 Draft Budgetary Plans are based on a qualitative assessment of fiscal measures. The Opinions are summarised as follows:

1. The Commission is of the opinion that the Draft Budgetary Plans are overall in line with the fiscal policy recommendation adopted by the Council on 20 July 2020. Most of the measures in the Draft Budgetary Plans support economic activity against the background of considerable uncertainty.

2. For Austria, Belgium, Cyprus, Estonia, Finland, Germany, Greece, Ireland, Latvia, Luxembourg, Malta, Netherlands, Portugal, Slovenia and Spain, the measures are (mostly) temporary. Some measures set out in the Draft Budgetary Plans of France, Italy, Lithuania and Slovakia do not appear to be temporary or matched by offsetting measures. Lithuania has submitted its Draft Budgetary Plan based on a no-policy-change scenario and is invited to submit an updated Draft Budgetary Plan.

3. For Belgium, France, Greece, Italy, Portugal and Spain, given the level of their government debt and high sustainability challenges in the medium-term before the outbreak of the COVID-19 pandemic, it is important to ensure that, when taking supporting budgetary measures, fiscal sustainability in the medium term is preserved.

I. Introduction

Coordination of national budgetary policies is an important part of the economic governance framework in the Economic and Monetary Union.[1] To enable this coordination, euro area Member States submit their next-year Draft Budgetary Plans to the Commission and to the Eurogroup by mid-October. These plans summarise the draft budgets that governments plan to submit to national parliaments. The Commission provides an Opinion on each plan, assessing whether it is compliant with Member State's obligations under the Stability and Growth Pact. The Commission also provides an overall assessment of the budgetary situation and prospects for the euro area as a whole.

Almost all euro area Member States submitted their 2021 Draft Budgetary Plans by 15 October 2020, as required by Regulation (EU) No 473/2013. Cyprus and Italy submitted their plans with minor delays. In line with the indications of the Two-Pack Code of Conduct,[2] Belgium and Lithuania submitted Draft Budgetary Plans prepared under a no-policy-change assumption. Belgium, which had formed a new government on 30 September 2020, subsequently submitted an updated plan on 30 October. The Commission Opinion is based on the assessment of the updated plan. Lithuania held parliamentary elections in October and its caretaker government submitted a plan based on an unchanged-policy scenario.

While respecting Member States' budgetary competence, the Commission's Opinions provide objective policy advice, in particular for national governments and parliaments, to facilitate the assessment of the draft budgets' compliance with EU fiscal rules. The Two-Pack provides for a comprehensive toolbox to treat economic and budgetary policy as a matter of common concern within the euro area, in line with the Treaty.

The Commission's assessment is anchored by the country-specific recommendations (CSRs), adopted by the Council on 20 July 2020.[3] This year, in the context of the COVID-19 pandemic, the fiscal CSRs are of a purely qualitative nature and do not include the numerical budgetary requirements that would normally apply. This reflects the activation of the general escape clause of the Stability and Growth Pact. The recommendations focused on the most urgent challenges brought about by the COVID-19 outbreak and the need for a coordinated fiscal response. The Council issued an identical fiscal CSR to all euro area Member States under the preventive arm,[4] recommending that Member States take all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy, and support the recovery. When economic conditions allow, fiscal policies should aim at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

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1 As set out in Regulation (EU) No 473/2013, known as Two-Pack, on common provisions for monitoring and assessing Draft Budgetary Plans and ensuring the correction of excessive deficits of the Member States in the euro area. This regulation entered into force in May 2013.

2 See the Two-Pack Code of Conduct: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2014-11-07_two_pack_coc_amended_en.pdf

3 https://www.consilium.europa.eu/en/press/press-releases/2020/07/20/european-semester-2020-country-specific-recommendations-adopted/

4 Romania is currently subject to an excessive deficit procedure. Its current fiscal CSR reflects the Council 126(7) recommendation to end the excessive deficit situation, adopted in April 2020.

The Commission in the Annual Sustainable Growth Strategy 2021 confirmed that fiscal policy should continue to support the recovery in 2021.[5] In light of this need and the still high uncertainty about the economic consequences of the pandemic, the general escape clause will remain active in 2021. In spring 2021, taking into account updated macroeconomic projections, the Commission will reassess the situation and take stock of the application of the general escape clause.

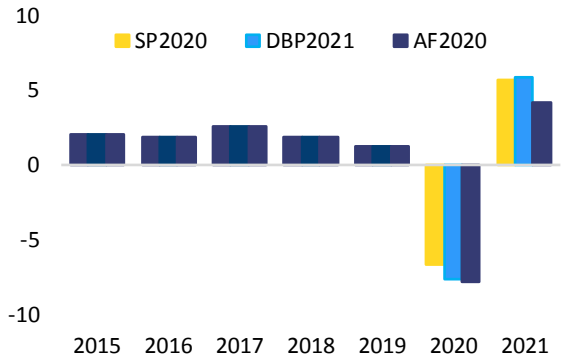
The objective of this Communication is twofold. First, it provides an aggregate picture of budgetary policy at euro area level, building on a cross-country assessment of the Draft Budgetary Plans. This exercise mirrors the cross-country assessment of Stability Programmes conducted in the spring, but with a focus on the forthcoming year instead of medium-term fiscal plans. Second, it provides an overview of the Draft Budgetary Plans at country level and explains the Commission's approach to assessing them, in particular the fiscal measures taken in response to the COVID-19 pandemic and the resulting economic crisis.

II. Main euro area findings

Economic outlook

The euro area economy continues to be in the grip of the COVID-19 pandemic. The extraordinary containment measures imposed in the first half of 2020 to curb the spread of the virus gave rise to a dramatic reduction in economic activity. Output shrank by around 15% in the first half of 2020, down to levels last seen in 2005. Contact-intensive sectors were hit particularly hard. Despite a strong rebound in economy activity in the third quarter, the recovery is set to stall due to a new surge of infections and renewed containment efforts. Overall, real GDP is forecast to decline by almost 8% in 2020. Macroeconomic assumptions contained in the Draft Budgetary Plans paint a similar picture, with the aggregate growth forecast standing about 1 pp. below the outcomes anticipated in the 2020 Stability Programmes (Graph 2.1 and Annex Table IV.1).[6] Looking further ahead, both the Commission and Member States project a pick-up in activity in 2021, though Member States expect a more vigorous recovery, in particular, Spain and Luxembourg. However, it should be noted that the Commission forecast, which was released on 5 November, reflects more recent information than the Draft Budgetary Plans on the spread of

Graph 2.1 **Euro area: real GDP growth, 2015-2021 (%)**



Note: European Commission 2020 spring forecast is used for countries that did not present forecasts for 2020 or 2021 in their 2020 Stability Programmes.
Sources: 2021 Draft Budgetary Plans (DBP), European Commission 2020 autumn and spring forecasts, and 2020

[5] See also letters on fiscal policy orientations for 2021: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

[6] Euro area Member States are required to base their draft budgets on independently endorsed or produced macroeconomic forecasts.

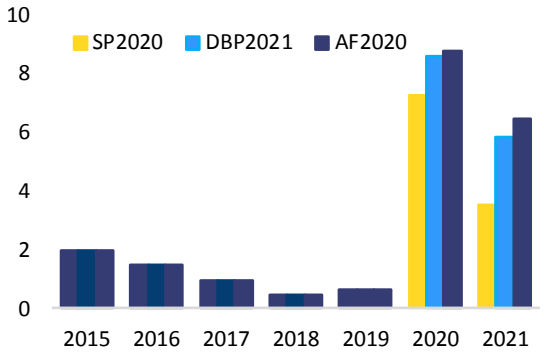
the virus and the introduction of new containment measures. In the context of uncertain and fast-moving developments, such differences are to be expected. Despite the return to growth, the recovery is set to remain incomplete and euro area economies are expected to continue operating below potential in 2021. The implementation of Next Generation EU, which is only marginally incorporated in the Commission 2020 autumn forecast and the Draft Budgetary Plans, will further support the recovery in the euro area.

Uncertainty and risks remain exceptionally large. The evolution of the COVID-19 pandemic and its economic fallout are the main source of uncertainty. The recent resurgence of the virus could further weaken economic activity. A premature withdrawal of COVID-19-related support could hamper the rebound of economic activity, for example by undermining economic confidence. At the same time, longer-than-necessary extension of policy support measures could be counterproductive (for example by extending support to non-viable companies). Insufficient coordination of national policy responses could also hamper the recovery. Spillovers from lower-than-projected global demand would slow growth even further. The possibility of financial market stress cannot be excluded. The banking sector could be tested as higher corporate defaults would lead to an increase in non-performing loans. On the upside, faster progress in controlling the pandemic and the implementation of ambitious and coordinated policies within the EU could enable a faster recovery.

Fiscal outlook

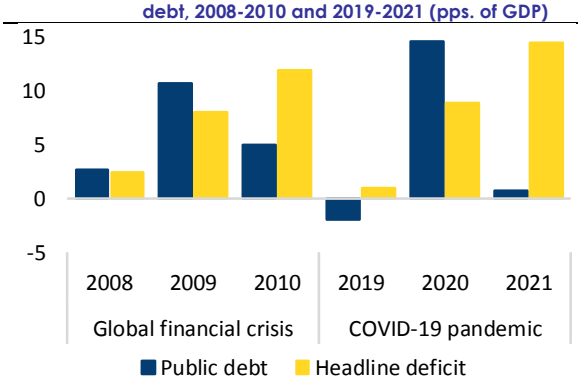
The aggregate euro area headline deficit is expected to fall in 2021 but to remain at a very high level (Graph 2.2 and Annex Table IV.2). The Draft Budgetary Plans point to an aggregate headline deficit of 5.9% of GDP in 2021, down from an expected 8.6% of GDP in 2020. These projections are broadly in line with the Commission 2020 autumn forecast, but mark a significant increase since the 2020 Stability Programmes, which had foreseen an aggregate deficit of 3.5% of GDP in 2021. The projected increases in general government deficits are larger than those observed during the global financial crisis (Graph 2.3). The expected improvement in the aggregate deficit in 2021 is mostly driven by the expiry of temporary fiscal measures adopted in 2020 to combat the health crisis and its economic impact. The recent resurgence of the pandemic in Europe may lead to the extension of these measures in order to sustain the economy and support the recovery, putting upward pressure on the deficit in 2021. Nearly all euro area Member States plan a lower deficit in 2021 compared to 2020. The largest falls of more than 4 pps. of GDP are planned in Belgium, Greece and Luxembourg.

Graph 2.2 **Euro area: headline deficit, 2015-2021 (% of GDP)**



Note: European Commission 2020 spring forecast is used for countries that did not present forecasts for 2020 or 2021 in their 2020 Stability Programmes.
Sources: 2021 Draft Budgetary Plans (DBP), European Commission 2020 autumn and spring forecasts, and 2020 Stability Programmes (SP).

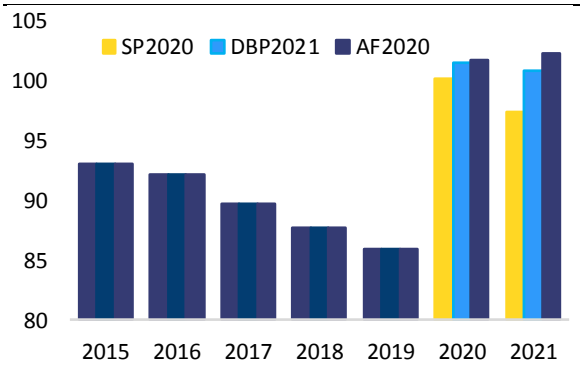
Graph 2.3 **Euro area: change in headline deficit and public debt, 2008-2010 and 2019-2021 (pps. of GDP)**



Source: European Commission 2020 autumn forecast.

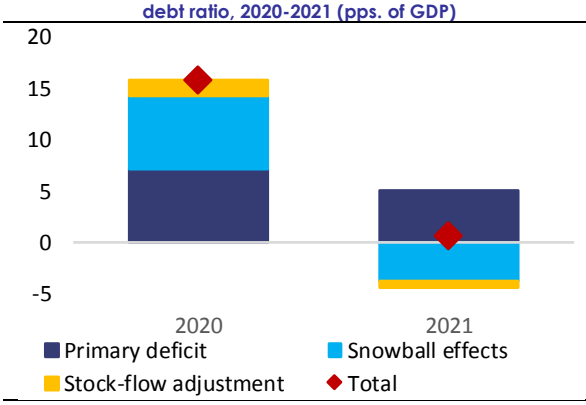
The aggregate debt-to-GDP ratio is projected to remain broadly stable in 2021 at around 100% (Graph 2.4 and Annex Table IV.3). The pre-pandemic decline in the debt ratio reversed in 2020, reflecting a sizeable contraction of GDP and the large amount of debt issued to finance the response to the pandemic. The projected worsening of the debt ratio in 2020 was much larger than in 2008-2009 (Graph 2.3). The Draft Budgetary Plans project the debt ratio to rise from 86% in 2019 to 102% in 2020, with a stabilisation in 2021. This projection is similar to the Commission 2020 autumn forecast for 2020 but not 2021, when the Commission expects a further increase of the debt ratio of 0.6 pps. of GDP. Overall, the primary deficit will continue to weigh on debt dynamics in 2021 but a favourable interest rate-growth differential should help contain the projected increase (Graph 2.5). Member States with the largest projected increases in their debt ratios in 2021 are Estonia, Ireland and Malta. Member States that had the highest pre-crisis debt ratios tend to expect some improvement in 2021.

Graph 2.4 **Euro area: public debt, 2015-2021 (% of GDP)**



Note: European Commission 2020 spring forecast is used for countries that did not present forecasts for 2020 or 2021 in their 2020 Stability Programmes.
Sources: 2021 Draft Budgetary Plans (DBP), European Commission 2020 autumn and spring forecasts, and 2020 Stability Programmes (SP).

Graph 2.5 **Euro area: decomposition of the change in the debt ratio, 2020-2021 (pps. of GDP)**



Note: The snowball effect refers to the net impact of interest rates, inflation and real GDP growth (that is, the interest rate-growth differential) on the debt dynamics.
Source: European Commission 2020 autumn forecast.

The debt projections are exceptionally uncertain. Stochastic simulations suggest that the euro area debt-to-GDP ratio is likely to lie between 99% and 106% of GDP in 2021 (Annex III). Over the medium-term, the ratio is likely to stabilise as the impact of the COVID-19 crisis on public finances gradually unwinds. Contingent liabilities arising from the provision of public guarantees to sustain economic activity and sectors particularly hit by the pandemic, only if called, would be reflected in public debt and deficits. These contingent liabilities amount to about 20% of GDP in 2020, with large differences across Member States (Box 1). On the other hand, several mitigating factors exist. These factors include the lengthening of debt maturities in recent years, stable financing sources, historically low borrowing costs, and EU initiatives such as the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) and, more importantly, Next Generation EU, which includes the Recovery and Resilience Facility (RRF).

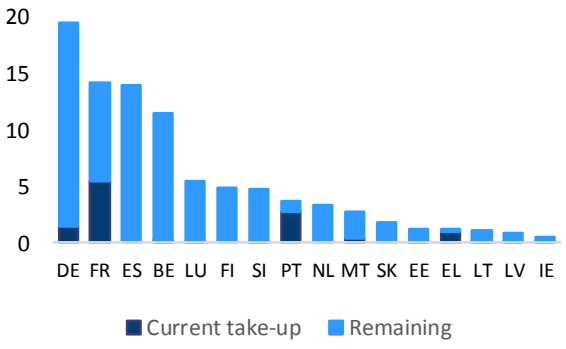
Box 1. Guarantees and other liquidity support measures in the 2021 Draft Budgetary Plans

Member States provided ample liquidity support to counter the economic fallout of the COVID-19 pandemic. The most common forms of liquidity support are state guarantees to support private sector borrowing and tax deferrals (that is, the possibility of delaying tax obligations without penalty). Member States also issued guarantees to support new EU level instruments.

State guarantees are the largest category of liquidity support measures. Member States have put in place schemes amounting to 17% of GDP. This amount represents the maximum size of the guarantee frameworks but the actual take-up or contractual agreements between households, firms, financial sector and government may be smaller. Only a part of the contractual obligations is likely to result in calls on government, materialising as deficit and affecting debt levels. This proportion is difficult to estimate in advance. Member States also issued guarantees to support new EU level instruments, in particular SURE and the European Guarantee Fund.

The size of guarantee programs and their set-ups vary among Member States. Some governments have directly guaranteed loans issued by banks to households and firms. Other Member States have relied on national promotional institutions to implement liquidity support programmes. These institutions include KfW in Germany, KredEx in Estonia, the Hellenic Development Bank, BPI France, CDP in Italy, Altum in Latvia, INVEGA in Lithuania, the Malta Development Bank, and Finnvera in Finland. The take-up of guarantees, which transforms the theoretically possible maximum contingent liability under a scheme into the government's actual contingent liability, is also uneven across the Member States. According to the Commission's estimates, only around a quarter of available guarantees has been taken up so far.

Graph B1.1 **Guarantees extended to domestic agents, 2020 (% of GDP)**



Note: Guarantees to EU and international level instruments are excluded. For Germany, the graph shows the size of new guarantee schemes set up, while the overall guarantee framework is actually unlimited. For France, Ireland and Latvia, data in the Draft Budgetary Plans was supplemented with information from other public sources. Austria and Italy provided no guarantee data despite existing schemes. In Italy, the maximum contingent liabilities are estimated at around 30% of GDP, with an indicative take-up of around 7% of GDP so far.

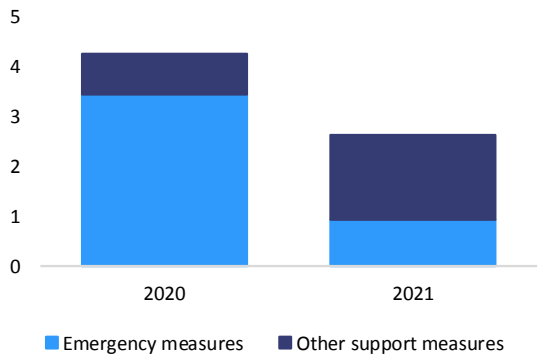
The Commission invited Member States to report in their Draft Budgetary Plans, on a voluntary basis, the maximum size of guarantee frameworks and their take-up. Most Member States provided this information at least partially. Some Member States also reported guarantees supporting EU and international level instruments such as SURE. Graph B1.1 shows guarantees extended to domestic economic actors only, adjusted for comparability reasons.

Euro area Member States also allowed for deferrals of tax and social security contribution payments of around 1½% of GDP in 2020. Tax deferrals have no direct impact on the government deficit, since taxes are recorded in national accounts in the period when the economic activity generating the tax liability takes place. At the same time, deferrals may temporarily affect debt, should they entail additional borrowing by the general government in the deferral period. However, in view of the sizeable expected economic contraction in 2020, some businesses are unlikely to survive the crisis and some of the postponed tax obligations may never be paid. According to the EU statistical framework, accrued but uncollectable taxes should not be recorded as government revenue, so they have a deficit-increasing impact. Overall, the Draft Budgetary Plans did not provide explicit disclosures of estimated tax-related losses, although their tax projections likely account for this impact.

Fiscal response to the COVID-19 pandemic

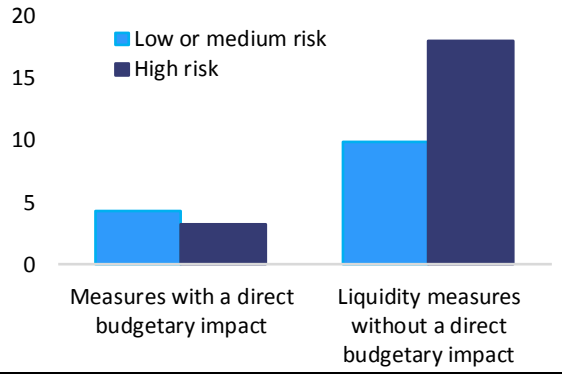
Member States have taken swift and sizeable fiscal measures in response to the pandemic. Fiscal measures introduced in 2020 mostly aimed at addressing the public health situation and compensating workers and firms for income losses due to lockdown measures and supply chain disruptions. These temporary emergency measures are estimated to amount to 3.4% of GDP in 2020 (Graph 2.6). Other measures of a more general recovery-supporting nature (either temporary or permanent), such as extra public works or indirect tax cuts, are estimated to amount to 0.8% of GDP in 2020. In 2021, according to the current forecast, temporary emergency measures would amount to 0.9% of GDP and other support measures to 1.5% of GDP.[7] Some Member States took additional measures after submitting their Plans and more emergency measures may need to be extended in response to the second wave of the pandemic.

Graph 2.6 **Euro area: Measures with a direct budgetary impact, 2020-2021 (% of GDP)**



Note: Emergency measures mostly aim at addressing the public health situation and compensating workers and firms for income losses due to lockdown measures and supply chain disruptions. They are mostly temporary. Recovery measures aim at a more general support of economic activity.
Sources: 2021 Draft Budgetary Plans and European Commission 2020 autumn forecast.

Graph 2.7 **Euro area: Fiscal support and pre-crisis medium-term fiscal sustainability risk, 2020 (% of GDP)**



Note: The chart shows the (simple) average discretionary fiscal support in 2020. Member States are clustered according to their pre-pandemic medium-term sustainability risks, with Belgium, Spain, France, Italy and Portugal in the high risk cluster. The debt sustainability analysis carried out for Greece in the *2019 Debt Sustainability Monitor* differed from the common approach, due to specificities of the Greek debt structure, notably the large share of official sector lending, with no risk classification provided.
Sources: 2021 Draft Budgetary Plans, European Commission 2020 autumn forecast, and European Commission's *2019 Debt Sustainability Monitor*.

Emergency measures are essential to support the health sector and keep households and businesses afloat, with a further positive impact on the economy. While useful in the initial phase of this crisis, they are likely to be less efficient to support the recovery when the health-related emergency gradually vanes. Because of their very nature, the short-term multipliers of temporary emergency measures are likely to be low in the context of restrictions in economic activity, as confirmed by the sharp rise in the private sector's propensity to save (rather than consume) in 2020. This is why, when the pandemic situation improves, emergency measures may need to be adjusted and combined with measures that improve the fundamentals of our economies, support the green and digital transition and have a positive impact on demand. In the meantime, and in

[7] The reason for distinguishing the emergency measures is that the appropriateness of their deployment should be gauged not in connection with the state of the economy but the state of public health and the restrictions it demands. These emergency measures are (almost exclusively) temporary, with an expiry date of 2022 or earlier. Other measures related to the COVID-19 crisis, either temporary or permanent, are deemed to support the ensuing recovery (i.e. other support measures).

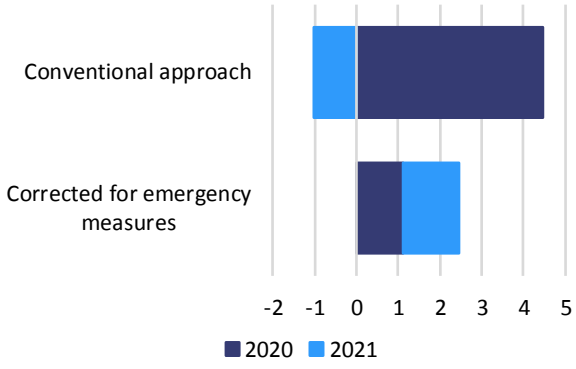
light of the recent resurgence of the pandemic in Europe, emergency measures may continue to prove necessary for providing a lifeline to the economy.

Member States with stronger fiscal positions have provided more direct budgetary support while Member States with weaker fiscal positions tended to rely more on liquidity support (Graph 2.7). Overall, countries with relatively stronger fiscal positions extended more fiscal support with a direct budgetary impact (1% of GDP). In contrast, countries with weaker fiscal positions appear to have relied more heavily on liquidity support without a direct budgetary impact. Moving forward, EU level support initiatives such as the RRF should provide additional fiscal space to support the recovery and Member States' resilience.

Assessment of the euro area fiscal stance

A mechanical reading of traditional indicators to assess the fiscal stance is not well suited at the current juncture. The introduction and subsequent withdrawal of sizeable temporary emergency measures distort the picture, as the corresponding changes in the level of public spending from one year to the next affect the indicators used to assess the fiscal stance.[8] Excluding the temporary emergency measures from the calculation of the fiscal stance indicators leads to a more representative assessment of the underlying fiscal support to economic activity.

Graph 2.8 **Euro area: fiscal stance, 2020-2021 (% of GDP)**



Note: The graph shows the discretionary fiscal impulse based on the expenditure benchmark methodology, which measures the growth of spending (net of discretionary measures) in excess to potential growth. In this graph, positive figures indicate an expansionary stance.
Source: European Commission 2020 autumn forecast.

The fiscal stance in 2021 appears supportive when adjusted for the planned unwinding of temporary emergency measures. The Draft Budgetary Plans assume that a large share of temporary emergency measures will expire in 2021. The conventional indicators (including emergency measures) point to a supportive fiscal stance +4.5% of GDP in 2020 but to a tightening of –1.0% of GDP in 2021 (according to the Commission 2020 autumn forecast; Graph 2.8). By contrast, excluding temporary emergency measures directly linked to the pandemic, the fiscal stance is supportive for both years at +1.1% of GDP in 2020 and +1.4% in 2021. While the recovery is projected to be incomplete, fiscal measures already in place will contribute to supporting economic activity over 2020-2021.

Financing from the RRF will provide an additional fiscal impulse. Expenditure financed by RRF grants provides *an additional fiscal stimulus* at the euro area level, despite being neutral for Member States' budget balances.[9] For now, the Commission 2020 autumn forecast assumes a small impact of RRF-financed expenditure on the euro area fiscal stance in 2021 (0.15% of GDP). However, this is due to the lack of sufficiently detailed information on those

[8] COVID-19 related emergency measures are not considered one-offs, although most of them have been introduced for a temporary period in order to complement automatic stabilisers.

[9] Eurostat has given a preliminary favourable assessment of the budget neutrality of RRF grants, following a consultation with national statistical offices.

measures in the 2021 Draft Budgetary Plans. Only six Member States reported expenditure financed by RRF in their Draft Budgetary Plans: Greece, France, Italy, Lithuania, Portugal and Slovenia.

The timing and the scale of the withdrawal of emergency measures foreseen in 2021 seems now uncertain in light of the second wave of the pandemic. This timeline for withdrawal was based on an assumption of switching from an 'emergency' phase to a 'recovery' phase of the crisis, that is, from containing the heath-related and economic damage of the pandemic to a phase focused on achieving a durable recovery. However, the recent resurgence of the pandemic in Europe may entail an extension of the 'emergency' response in order to provide a lifeline to the economy. This support is likely to modify the budgetary plans already reflected in the Commission forecast. However, the new 'emergency' measures should not necessarily mimic those taken during the first epidemical wave but instead should reflect the lessons learnt and be combined with actions that improve economic fundamentals. The challenge will be to continue to support the economy in the emergency whilst creating the conditions for the return to sustained and sustainable growth consistent with the green and digital transition of the EU economy.

The mix of large output losses and high downside risks calls for continued fiscal policy support, both well targeted and temporary. First, Member States should avoid withdrawing fiscal support abruptly. Second, fiscal support measures in the current phase of the pandemic might differ from the usual aggregate demand support seen during a normal recession. As the pandemic continues and uncertainty prevails, stimulus measures should be well targeted, since broad-based measures risk being ineffective. Third, the resurgence of the pandemic should not lead to a systematic extension of emergency-oriented fiscal policy measures once the underlying health situation improves. The priorities and appropriate measures under the 'emergency' and the 'recovery' regimes are different and Member States need to remain agile and recognise in a timely manner how to combine different types of support.

Member States' fiscal policy responses should continue to provide fiscal support, while safeguarding fiscal sustainability in the medium term. The economic impact of the pandemic has been more acute in many high-debt Member States, adding to the challenge of finding an optimal fiscal policy response. Currently, Member States benefit from favourable financing costs, thanks to the substantial support from the European Central Bank's monetary policy measures and much improved financial markets confidence following the deployment of sizeable instruments at the EU level. However, in order to reconcile the need for economic support with prudent medium-term fiscal positions and medium-term fiscal sustainability, support measures should be temporary and not pre-committing fiscal policy in the post-crisis period. When economic conditions allow, government should resume fiscal policies aimed at achieving prudent medium-term fiscal positions while enhancing investment. Credible medium-term fiscal strategies are important to support fiscal sustainability, not least in the case of highly-indebted Member States.

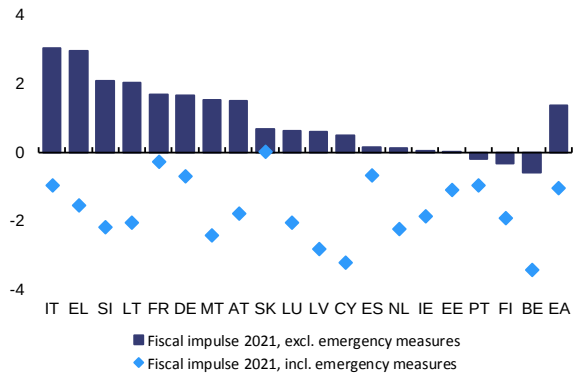
III. Overview of the Draft Budgetary Plans

Almost all euro area Member States submitted their Draft Budgetary Plans by 15 October. This was in line with Article 6 of Regulation (EU) No 473/2013. The two exceptions were Italy and Cyprus. Italy submitted its plan on 19 October, while Cyprus submitted its plan on 23 October. In accordance with the provisions of the Two-Pack Code of Conduct, Belgium and Lithuania submitted no-policy-change Draft Budgetary Plans. Belgium submitted a no-policy-change plan on 15 October due to the recent formation of a new federal government, and then submitted an updated plan on 30 October. The Commission Opinion is based on the assessment of the updated plan. Lithuania submitted a no-policy-change Draft Budgetary Plan due to the holding of national elections in October. The Lithuanian authorities are invited to submit to the Commission and the Eurogroup an updated plan as soon as the new government takes office and, as a rule, at least one month before the draft budget law is planned to be adopted by the national parliament.

Fiscal response to the COVID-19 pandemic in 2020-2021 across Member States

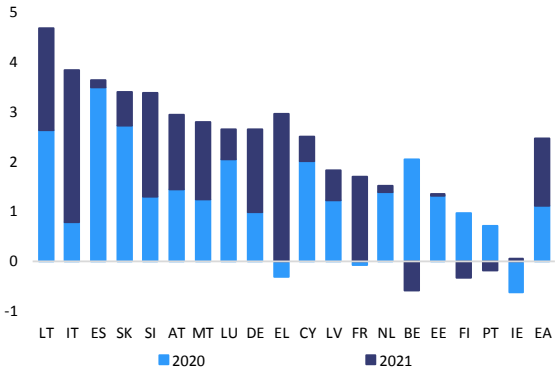
The fiscal stance appears supportive in all euro area Member States in 2020-2021, once the calculations are corrected for the phasing out of temporary emergency measures (Graph 3.1). As discussed in Section II, the planned withdrawal of the emergency spending influences sizably the traditional indicators of the fiscal stance. Excluding the temporary emergency measures, the underlying fiscal effort (measured by the expenditure benchmark) amounts to an expansionary stance in 2021 (about 1.5% of GDP). In some Member States, this support is sizeable at 2% of GDP or more. This support is on top of significant expansionary measures of about 1% of GDP already delivered in 2020 (Graph 3.2) and is provided across most Member States (Graph 3.3). When adjusted for the planned withdrawal of the emergency measures, the fiscal stance is expected to be slightly contractionary in two Member States in 2021. RRF financing will provide an additional fiscal stimulus.

Graph 3.1 **Fiscal stance, 2021 (% of GDP)**



Note: Fiscal stance is calculated as the discretionary fiscal impulse based on the expenditure benchmark methodology. Positive figures indicate a supportive stance.
Source: European Commission 2020 autumn forecast.

Graph 3.2 **Fiscal stance excl. emergency measures, 2020-2021 (% of GDP)**

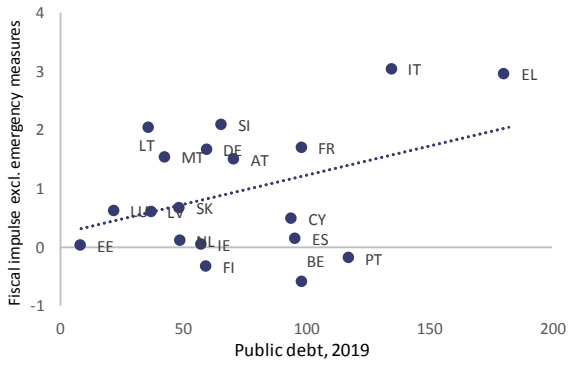


Note: Fiscal stance is calculated as the discretionary fiscal impulse, with emergency measures excluded. Positive figures indicate a supportive stance.
Source: European Commission 2020 autumn forecast.

While the majority of measures is aimed to support the economic recovery, temporary emergency measures represent over one third of total measures in 2021, on average, with high country dispersion (Graph 3.4). This reflects the still high uncertainty surrounding the evolution of the pandemic. Five Member States budget for emergency spending of 1% of GDP or more, though some countries incorporate no impact from a temporary emergency response in their 2021 budgets. Several countries plan to pivot their fiscal support in 2021 from emergency towards support of economic recovery. However, in light of the recent resurgence of the pandemic in Europe, the planned withdrawal of emergency measures in 2021 is subject to increased uncertainty as Member States are expected to provide further emergency support to provide a lifeline to the economy.

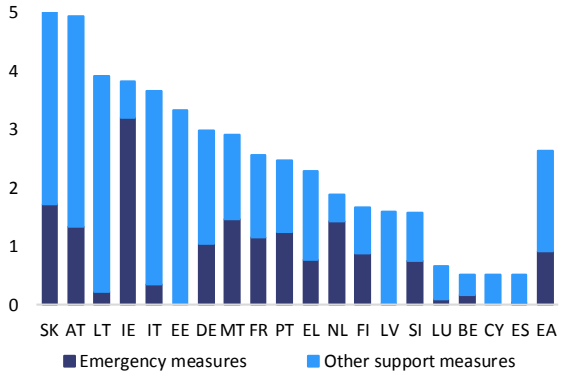
Member States plan a combination of mostly temporary and some permanent measures in 2021 to support economic activity against the background of considerable uncertainty (Graph 3.5). The measures are expected to amount to 2.6% of GDP on average, with some countries planning stimulus of 3% of GDP or more. On average, temporary measures represent around two thirds of total measures in 2021. However, a few countries have also implemented permanent measures, in some limited cases in excess of 1% of GDP, with an impact on the future fiscal trajectories. This could be of concern, as the uncertainty surrounding the second wave of pandemic remains high and there may be a need for additional emergency measures. Coupling the necessary temporary emergency measures with permanent measures should not risk jeopardising the medium-term fiscal sustainability (Graph 3.6).

Graph 3.3 **Fiscal stance excl. emergency measures in 2021 and public debt in 2019 (% of GDP)**



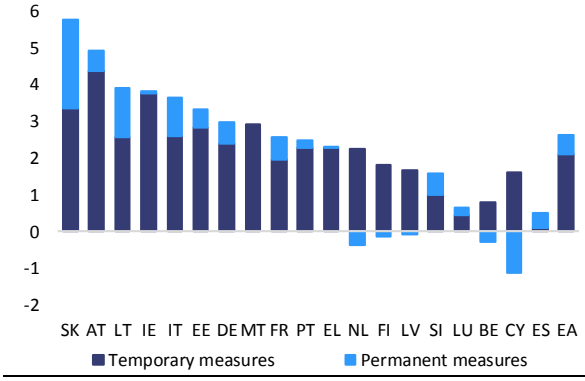
Note: Fiscal stance is calculated as the discretionary fiscal impulse, with emergency measures excluded. Positive figures indicate a supportive stance.
Source: European Commission 2020 autumn forecast.

Graph 3.4 **Emergency and other support measures, 2021 (% of GDP)**



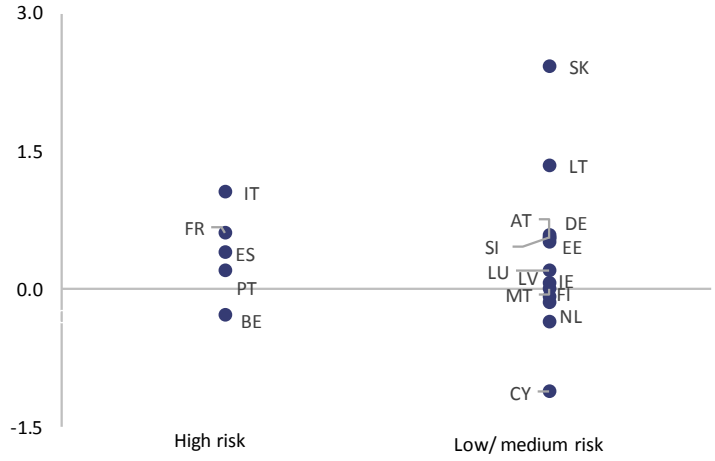
Note: The chart shows fiscal impact in 2021 of discretionary measures adopted from 2020 onwards. Emergency measures mostly aim at addressing the public health situation and compensating workers and firms for income losses due to lockdown measures and supply chain disruptions; they are mostly temporary. Other support measures aim at a more general support of economic activity and can be either temporary or permanent.
Source: European Commission 2020 autumn forecast.

Graph 3.5 **Temporary and permanent measures, 2021 (% of GDP)**



Note: The graph shows fiscal impact in 2021 of discretionary measures adopted from 2020 onwards. Temporary measures are set to expire in 2022 or earlier.
Source: European Commission 2020 autumn forecast.

Graph 3.6 **Permanent measures and pre-crisis medium-term fiscal sustainability risks, 2021 (% of GDP)**



Note: The chart shows fiscal impact in 2021 of the permanent measures adopted from 2020 onwards. Member States are clustered according to their pre-pandemic medium-term sustainability risks. The debt sustainability analysis carried out for Greece in the *Debt Sustainability Monitor 2019* differed somehow from the common approach, due to specificities of the Greek debt structure, notably the large share of official sector lending, with no risk classification provided.
Source: European Commission 2020 autumn forecast and *2019 Debt Sustainability Monitor*.

Qualitative Commission assessment of the 2021 Draft Budgetary Plans

The Commission Opinions on the 2021 Draft Budgetary Plans take into account the activation of the general escape clause of the Stability and Growth Pact. On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact.[10] In its Communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. As indicated in the Annual Sustainable Growth Strategy 2021[11] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance,[12] Member States should continue to provide targeted and temporary fiscal support in 2021 in a context where the general escape clause is activated, while safeguarding fiscal sustainability in the medium term.

In spring, the Commission adopted reports under Article 126(3) of the Treaty on the Functioning of the European Union for all Member States except Romania, which was already in the corrective arm of the Pact. In light of the exceptional uncertainty created by

[10] Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Investment Bank and the Eurogroup on Coordinated economic response to the COVID-19 Outbreak, Brussels, 13.3.2020, COM(2020) 112 final.

[11] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[12] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken. This remains valid.

Fiscal policy in 2020 and 2021 focuses on countering the pandemic. Following the activation of the general escape clause, the Council recommended on 20 July 2020 that Member States should take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, Member States should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

The Opinions on the 2021 Draft Budgetary Plans focus on the assessment of the budgetary measures for 2021. The Opinions assess whether the planned supportive measures are in line with the Council recommendations of 20 July 2020 and the guidance provided in the letter sent by the Commission on 19 September. In particular, it is assessed whether the measures are temporary. The latter is important in the context of preserving fiscal sustainability in the medium term, in line with the general escape clause.

The qualitative assessment of the 2021 Draft Budgetary Plans can be summarised as follows:

1. The Commission is of the opinion that the Draft Budgetary Plans are overall in line with the fiscal policy recommendation adopted by the Council on 20 July 2020. Most of the measures in the Draft Budgetary Plans support economic activity against the background of considerable uncertainty.
2. For Austria, Belgium, Cyprus, Estonia, Finland, Germany, Greece, Ireland, Latvia, Luxembourg, Malta, Netherlands, Portugal, Slovenia and Spain, the measures are (mostly) temporary. Some measures set out in the Draft Budgetary Plans of France, Italy, Lithuania and Slovakia do not appear to be temporary or matched by offsetting measures. Lithuania has submitted its Draft Budgetary Plan based on a no-policy-change scenario and is invited to submit an updated Draft Budgetary Plan.
3. For Belgium, France, Greece, Italy, Portugal and Spain, given the level of their government debt and high sustainability challenges in the medium-term before the outbreak of the COVID-19 pandemic, it is important to ensure that, when taking supporting budgetary measures, fiscal sustainability in the medium term is preserved.

All Member States are invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

ANNEX I: Country-specific assessment of 2021 Draft Budgetary Plans

The Commission is of the opinion that the Draft Budgetary Plan of **Austria** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Austria are supporting economic activity against the background of considerable uncertainty. Austria is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Belgium** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Belgium are supporting economic activity against the background of considerable uncertainty. Given the level of Belgium's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, it is important for Belgium to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved. Belgium is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Cyprus** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Cyprus are supporting economic activity against the background of considerable uncertainty. Cyprus is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Estonia** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Estonia are supporting economic activity against the background of considerable uncertainty. Estonia is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Finland** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Finland are supporting economic activity against the background of considerable uncertainty. Finland is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **France** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of France are supporting economic activity against the background of considerable uncertainty. However, some measures do not appear to be temporary or matched by offsetting measures. Given the level of France's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, it is important for France to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved. France is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Germany** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Germany are supporting economic activity against the background of considerable uncertainty. Germany is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Greece** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Greece are supporting economic activity against the background of considerable uncertainty. Given the level of Greece's government debt before the outbreak of the COVID-19 pandemic, it is important for Greece to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved. Greece is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Ireland** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Ireland are supporting economic activity against the background of considerable uncertainty. Ireland is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Italy** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Italy are supporting economic activity against the background of considerable uncertainty. However, some measures do not appear to be temporary or matched by offsetting measures. Given the level of Italy's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, it is important for Italy to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved. Italy is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Latvia** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Latvia are supporting economic activity against the background of considerable uncertainty. Latvia is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Luxembourg** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Luxembourg are supporting economic activity against the background of considerable uncertainty. Luxembourg is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Lithuania** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Lithuania are supporting economic activity against the background of considerable uncertainty. However, some measures do not appear to be

temporary or matched by offsetting measures. Lithuania is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances. As soon as a new government takes office and, as a rule, at least one month before the draft budget law is planned to be adopted by the national parliament, the authorities are invited to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan.

The Commission is of the opinion that the Draft Budgetary Plan of **Malta** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Malta are supporting economic activity against the background of considerable uncertainty. Malta is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of the **Netherlands** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures in the Draft Budgetary Plan are supporting economic activity against the background of considerable uncertainty. The Netherlands is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Portugal** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Portugal are supporting economic activity against the background of considerable uncertainty. Given the level of Portugal's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, it is important for Portugal to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved. Portugal is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Slovakia** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Slovakia are supporting economic activity against the background of considerable uncertainty. However, some measures do not appear to be temporary or matched by offsetting measures. Slovakia is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Slovenia** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Slovenia are supporting economic activity against the background of considerable uncertainty. Slovenia is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

The Commission is of the opinion that the Draft Budgetary Plan of **Spain** is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Spain are supporting economic activity against the background of considerable uncertainty. Given the level of Spain's government debt and high sustainability challenges in the medium term before the outbreak of the Covid-19 pandemic, it is important for Spain to ensure that, when taking supportive budgetary measures, fiscal

sustainability in the medium term is preserved. Spain is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

ANNEX II: The methodology and assumptions underpinning the Commission autumn 2020 forecast

According to Article 7(4) of Regulation (EU) No 473/2013, "the methodology and assumptions of the most recent economic forecasts of the Commission services for each Member State, including estimates of the impact of aggregated budgetary measures on economic growth, shall be annexed to the overall assessment". The assumptions underlying the Commission 2020 autumn forecast, which is produced independently by Commission staff, are explained in the forecast document itself.[13]

Budgetary data up to 2019 are based on data notified by Member States to the Commission before 1 October 2020 and validated by Eurostat on 22 October 2020. Eurostat has made no amendments to the data reported by Member States during the autumn 2020 notification round. Eurostat withdrew its earlier reservation on the quality of the data reported by Denmark for the year 2019. That reservation reflected a lack of completeness and high statistical discrepancy of data provided by the Danish statistical authorities in March 2020. Since then, the Danish statistical authorities provided a complete data set and the discrepancy decreased considerably.

For the forecast, measures in support of financial stability have been recorded in line with the Eurostat Decision of 15 July 2009.[14] Unless reported otherwise by the Member State concerned, capital injections known in sufficient detail have been included in the forecast as financial transactions, i.e. increasing the debt, but not the deficit. State guarantees on bank liabilities and deposits are not included as government expenditure, unless there is evidence that they have been called on at the time the forecast was finalised. However, loans granted to banks by the government, or by other entities classified in the government sector, usually add to government debt.

For 2021, budgets adopted or presented to national parliaments and all other measures known in sufficient detail are taken into consideration. In particular, all the information included in the Draft Budgetary Plans submitted by mid-October is reflected in the autumn forecast. For 2022, the 'no-policy-change' assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail.

European aggregates for general government debt in the forecast years 2020-2022 are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans). To ensure consistency in the time series, historical data are also published on the same basis. General government debt projections for individual Member States in 2020-22 include the impact of guarantees to the European Financial Stability Facility, bilateral loans to other Member States, and the participation in the capital of the European Stability Mechanism as planned on the cut-off date of the forecast.[15]

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[13] Methodological assumptions underlying the Commission autumn 2020 economic forecast, available at: https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2020-economic-forecast_en

[14] Available at: http://ec.europa.eu/eurostat/documents/1015035/2041337/FT-Eurostat-Decision-9-July-20093--final-.pdf.

[15] In line with the Eurostat decision of 27 January 2011 on the statistical recording of operations undertaken by the EFSF, available at: http://ec.europa.eu/eurostat/documents/2995521/5034386/2-27012011-AP-EN.PDF.

According to the Commission 2020 autumn forecast, the budgetary measures reported in the Draft Budgetary Plans for 2021 are deficit-increasing on aggregate (impact of around 1% of GDP). Expenditure-increasing measures are expected to drive the negative impact. Overall, the mechanical impact on GDP growth in the short-term is projected to be positive.

It is important to be prudent in interpreting that estimate:

- Regulation (EU) No 473/2013 aims at evaluating the effect of the measures taken in the Draft Budgetary Plans. Measures taken and having entered into force before the Draft Budgetary Plans are not included in the assessment even if they can have an additional impact on the public finance projections for 2021.
- The impact of reported measures is expressed against a baseline at unchanged policy. The fiscal policy orientation of that baseline is not necessarily neutral. For example, the trend increase of some expenditure items could be above or below potential growth, there might be an additional impact of earlier measures in the baseline or measures taken earlier might cease in 2021.

The budgetary projections of some Member States include measures that are expected to be financed under Next Generation EU/ RRF. The Commission 2020 autumn forecast records these measures as deficit-increasing, though they may eventually be financed by RRF. As a result, projected deficits of those Member States might be overestimated.

ANNEX III: Debt sustainability analysis and sensitivity analysis

This Annex presents a sensitivity analysis of public debt developments to possible macroeconomic shocks, as required by Article 7 of Regulation (EU) No 473/2013. Stochastic debt projections are used to assess the possible impact on public debt dynamics of risks to nominal GDP growth, financial market developments and fiscal shocks affecting the government budgetary position. [16]

The stochastic projections account for macroeconomic uncertainty around a 'central' debt projection scenario in 2021-2025. Two 'central' debt scenarios are considered:

- The Commission 2020 autumn forecast scenario, which includes a baseline forecast through 2022.[17] Starting in 2023, countries are generally assumed to gradually adjust their structural primary balance to return to the level that was forecasted for year 2021 in the (pre-pandemic) Commission 2019 autumn forecast.
- The 2021 Draft Budgetary Plans' scenario, which includes a baseline forecast through 2021. Starting in 2022, countries are assumed to gradually adjust their structural primary balance to return to the level that was forecasted for year 2021 in the (pre-pandemic) 2020 Draft Budgetary Plans.[18]

Shocks are applied to the macroeconomic conditions assumed in the central scenario to obtain the distribution of possible debt paths (the 'cone' in the fan charts shown in Graph III.1). The cone corresponds to a wide set of possible macroeconomic conditions, with up to 2000 shocks simulated on growth, interest rates and the primary balance. The size and correlation of these shocks reflect historical volatility and relationships between these variables.[19] Therefore, the fan charts provide probabilistic information on euro area debt dynamics, taking into account the possible occurrence of shocks to growth, interest rates and the primary balance of a magnitude and correlation mirroring the past developments.

Each fan chart reports the projected debt path under the central scenario as a dashed line. The median outcome of the simulations is shown as a solid black line. The cone covers 80% of all possible debt paths (20% of the least likely shocks are not shown). The differently shaded areas within the cone represent different portions of the overall distribution of possible debt paths.

In 2021, the simulations suggest that the euro area debt ratio will be between 99% and 106% of GDP with an 80% probability under the Commission scenario, and between 97% and 104% of GDP under the Draft Budgetary Plan scenario. By 2025, there would be a 50% probability of a debt ratio higher than around 104% of GDP under both scenarios.

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[16] The methodology for stochastic public debt projections used here is presented in the European Commission's Debt Sustainability Monitor 2019, Annex A7, and in Berti K. (2013), "Stochastic public debt projections using the historical variance-covariance matrix approach for EU countries", European Economy Economic Paper No. 480.

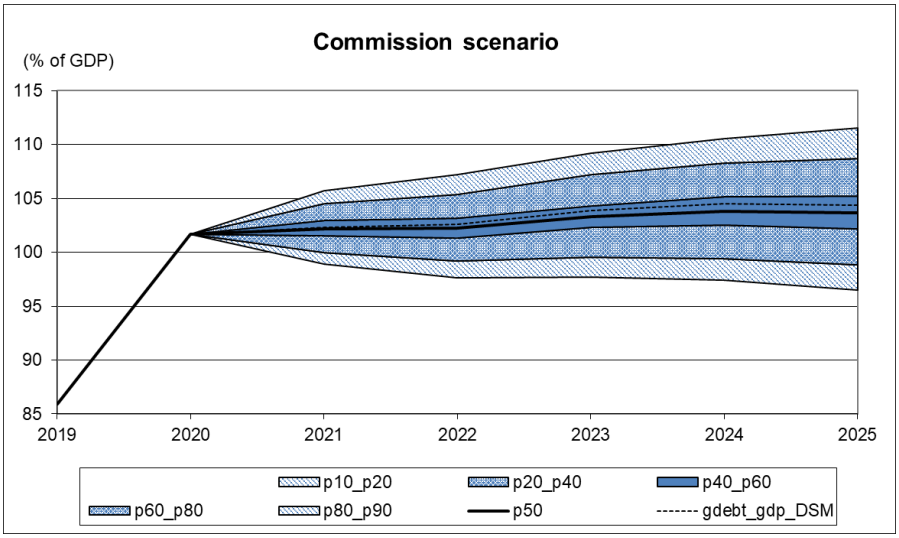
[17] The Commission 2020 autumn forecast incorporates fiscal policy measures (adopted and/or at least credibility announced) and information as of 22 October 2020.

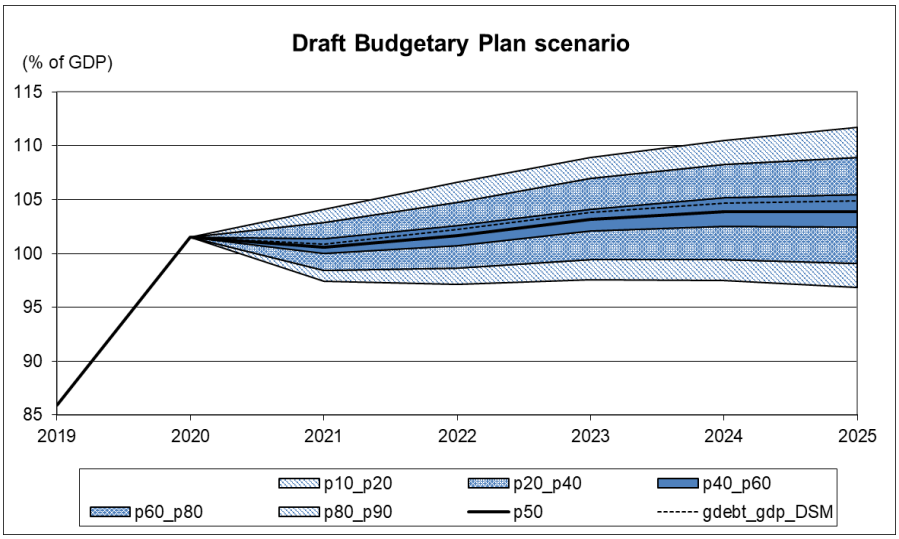
[18] This entails that the euro area structural primary balance is assumed to converge from 3.2% of GDP deficit in 2021 to 1.1% of GDP in 2025 in the Draft Budgetary Plan scenario, against a 2.9% deficit in 2021 to a 1.0% deficit in the Commission scenario.

[19] Shocks are assumed to follow a joint normal distribution.

Additional risks surround these projections. As the size and correlation of the shocks reflect the variables' historical behaviour, the methodology does not capture real-time uncertainty, in particular related to the output gap assessment. Output gaps tend to be revised downwards, in the direction of lower potential output than assumed in the real time. This uncertainty suggests an additional source of risks on future debt paths that is not reflected in this analysis. Another source of uncertainty relates to the realisation of contingent liabilities, as the fan charts only capture risks that materialised in the past through a deterioration of the primary balance.

Graph III.1: Fan charts from stochastic public debt projections around the Commission's forecast scenario and the Draft Budgetary Plans' forecast scenario





ANNEX IV: Tables

Table IV.1: Real GDP growth (%) according to the Stability Programmes (SP), the Draft Budgetary Plans (DBP) and the Commission 2020 autumn forecast (COM)

	2020			2021		
Country	SP	DBP	COM	SP	DBP	COM
BE	-8.0	-7.4	-8.4	8.6	6.5	4.1
DE	-6	-5.8	-5.6		4.4	3.5
EE	-8.0	-5.5	-4.6	8.0	4.5	3.4
IE	-10.5	-2.4	-2.3	6.0	1.7	2.9
EL	-4.7	-8.2	-9.0	5.1	7.5	5.0
ES	-9.2	-11.2	-12.4	6.8	9.8	5.4
FR	-8.0	-10.0	-9.4		8.0	5.8
IT	-8.0	-9.0	-9.9	4.7	6.0	4.1
CY	-7.0	-5.5	-6.2	6.0	4.5	3.7
LV	-7.0	-7.0	-5.6	1.0	5.1	4.9
LT	-7.3	-1.5	-2.2	6.6	3.3	3.0
LU	-6.0	-6.0	-4.5	7.0	7.0	3.9
MT	-5.4	-7.4	-7.3	3.9	5.0	3.0
NL	1.4	-5.0	-5.3	1.6	3.5	2.2
AT	-5.2	-6.8	-7.1	3.5	4.4	4.1
PT		-8.5	-9.3		5.4	5.4
SI	-8.1	-6.7	-7.1	3.5	5.1	5.1
SK	-7.2	-6.7	-7.5	6.8	5.5	4.7
FI	-5.5	-4.5	-4.3	1.3	2.6	2.9
EA	-6.7	-7.6	-7.8	5.7	5.9	4.2

Table IV.2: Headline balance (% of GDP) according to the Stability Programmes (SP), the Draft Budgetary Plans (DBP) and the Commission 2020 autumn forecast (COM)

	2020			2021		
Country	SP	DBP	COM	SP	DBP	COM
BE	-7.5	-10.3	-11.2		-6.0	-7.1
DE	-7 1/4	-6 ¼	-6.0		-4 ¼	-4.0
EE	-10.1	-6.6	-5.9	-3.8	-6.7	-5.9
IE	-7.4	-6.2	-6.8	-4.1	-5.7	-5.8
EL	-4.7	-8.6	-6.9	-0.2	-3.9	-6.3
ES	-10.3	-11.3	-12.2		-7.7	-9.6
FR	-9.0	-10.2	-10.5		-6.7	-8.3
IT	-7.1	-10.5	-10.8	-4.2	-7.0	-7.8
CY	-4.3	-4.5	-6.1	-0.4	-0.7	-2.3
LV	-9.4	-7.6	-7.4	-5.0	-3.9	-3.5
LT	-11.4	-8.8	-8.4	-3.9	-5.0	-6.0
LU	-8.5	-7.4	-5.1	-3.0	-2.7	-1.3
MT	-7.5	-9.4	-9.4	-3.6	-5.9	-6.3
NL	1.1	-7.2	-7.2	0.1	-5.5	-5.7
AT	-8.0	-9.5	-9.6	-1.9	-6.3	-6.4
PT		-7.3	-7.3		-4.3	-4.5
SI	-8.1	-8.6	-8.7		-6.6	-6.4
SK	-8.4	-9.7	-9.6	-4.9	-7.4	-7.9
FI	-7.2	-7.7	-7.6	-4.0	-5.0	-4.8
EA	-7.3	-8.6	-8.8	-3.5	-5.9	-6.4

Table IV.3: Debt-to-GDP ratio (% of GDP) according to the Stability Programmes (SP), the Draft Budgetary Plans (DBP) and the Commission 2020 autumn forecast (COM)

	2020			2021		
Country	SP	DBP	COM	SP	DBP	COM
BE	115.0	116.8	117.7		113.6	117.8
DE		71	71.2		70 1/4	70.1
EE	21.9	18.2	17.2	23.4	23.6	22.5
IE	69.1	62.6	63.1	68.4	66.6	66.0
EL	188.8	197.4	207.1	176.8	184.7	200.7
ES	115.5	118.8	120.3		117.4	122.0
FR	115.2	117.5	115.9		116.2	117.8
IT	151.8	158.0	159.6	147.5	155.6	159.5
CY	116.8	114.8	112.6	103.2	111.0	108.2
LV	51.7	47.3	47.5	52.2	46.0	45.9
LT	50.6	47.7	47.2	52.7	50.2	50.7
LU	28.7	27.4	25.4	29.6	29.4	27.3
MT	54.5	55.0	55.2	55.5	58.6	60.0
NL	46.3	59.1	60.0	45.2	61.1	63.5
AT	81.4	84.0	84.2	79.3	84.8	85.2
PT		134.8	135.1		130.9	130.3
SI	82.4	82.4	82.2		80.9	80.2
SK	61.3	62.2	63.4	62.0	65.0	65.7
FI	69.1	70.2	69.8	71.5	72.8	71.8
EA	100.2	101.5	101.7	97.4	100.9	102.3