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RECOMMENDATIONS

Council

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(Resolutions, recommendations and opinions)

RECOMMENDATIONS

COUNCIL

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Belgium

(2021/C 304/01)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 [2], facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

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[1] OJ L 209, 2.8.1997, p. 1.

[2] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6)

(2) On 20 July 2020, the Council adopted a Recommendation [3] ('the Council Recommendation of 20 July 2020'). It recommended Belgium to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Belgium to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Belgium was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

[3] Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Belgium and delivering a Council opinion on the 2020 Stability Programme of Belgium (OJ C 282, 26.8.2020, p. 1).

[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(8) On 30 April 2021, Belgium submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Belgium's general government deficit was 9,4 % of gross domestic product (GDP), while general government debt increased to 114,1 % of GDP. The annual change in the primary budget balance amounted to - 7,5 % of GDP, including discretionary budgetary measures of 4,5 % of GDP in support of the economy and the operation of automatic stabilisers. Belgium also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 11,8 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission at below ½ % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Belgium, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value and did not diminish at a satisfactory pace. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

(11) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and 2022. The 2021 Stability Programme projects real GDP to grow by 4,1 % and 3,5 % in 2021 and 2022, respectively. The Commission's 2021 spring forecast projects slightly higher real growth in 2021 and 2022, at 4,5 % and 3,7 % respectively, driven by higher investment.

(12) In its 2021 Stability Programme, the government plans a decrease in the general government deficit from 9,4 % of GDP in 2020 to 7,7 % of GDP in 2021, while the debt ratio is planned to increase to 116,3 % of GDP in 2021, from 114,1 % in 2020. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 6,1 % of GDP, reflecting the discretionary budgetary measures of 2,7 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast.

(13) In response to the COVID-19 pandemic and related economic downturn, Belgium has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Belgium in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

(14) The 2021 Stability Programme does not include yet receipts of grants under the Recovery and Resilience Facility. Meanwhile, the Commission's 2021 spring forecast assumes investments and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,2 % of GDP in 2021 and 0,3 % of GDP in 2022, following the same hypothesis as used by the Belgian Federal Planning Bureau in its macroeconomic evaluation of the Recovery and Resilience Facility.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

[5] In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Belgium's general government deficit is planned to decrease to 4,5 % of GDP in 2022, mainly due to a discontinuation of most of the temporary support measures adopted in 2020 and 2021 and to higher government revenue as a result of the improving macroeconomic situation. The general government debt ratio is planned to stabilise at 116 % of GDP in 2022. These projections are in line with the Commission's 2021 spring forecast. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,4 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,1 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,1 percentage point of GDP ([7]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 0,4 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 4 % of GDP in 2023 to 3,7 % of GDP in 2024. The general government deficit is not planned to return below 3 % of GDP over the 2021 Stability Programme's horizon. The 2021 Stability Programme does not include the information required to estimate the overall fiscal stance in 2023 and 2024. The current estimate of the 10-year average nominal potential growth is 2¾ % ([8]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Belgium's potential growth.

(20) The general government debt ratio is planned to increase from 116,7 % of GDP in 2023 to 117,4 % of GDP in 2024, entirely due to stock-flow adjustments. In light of the high debt ratio, which is projected to only gradually fall over time, Belgium is considered to face high fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.
([7]) Other nationally financed capital expenditure is projected to provide a neutral contribution.
([8]) Estimated by the Commission, in accordance with the commonly agreed methodology.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Belgium to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS BELGIUM TO:

1. In 2022, use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Preserve nationally financed investment.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Convergence Programme of Bulgaria

(2021/C 304/02)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Bulgaria to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Bulgaria to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council ([4]), which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6)
([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Bulgaria and delivering a Council opinion on the 2020 Convergence Programme of Bulgaria (OJ C 282, 26.8.2020, p. 8).
([4]) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(4) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(5) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(6) On 5 May 2021, Bulgaria submitted its 2021 Convergence Programme, beyond the deadline established in Article 8 of Regulation (EC) No 1466/97.

(7) In 2020, based on data validated by Eurostat, Bulgaria's general government deficit was 3,4 % of gross domestic product (GDP), while general government debt increased to 25 % of GDP. The annual change in the primary budget balance amounted to - 5,5 % of GDP, including discretionary budgetary measures of 3,2 % of GDP in support of the economy and the operation of automatic stabilisers.

(8) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Bulgaria, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was fulfilled.

(9) The macroeconomic scenario underpinning the budgetary projections is cautious in 2021 and 2022, since it does not take into account funding under the Recovery and Resilience Facility. Consequently, the presented baseline is not directly comparable with the Commission's 2021 spring forecast. Moreover, the Commission's 2021 spring forecast expects a stronger growth rate in exports, based on more favourable assumptions for foreign demand.

(10) In its 2021 Convergence Programme, the government plans an increase in the general government deficit from 3,4 % of GDP in 2020 to 5,6 % of GDP in 2021, while the debt ratio is planned to increase to 27,4 % of GDP in 2021. According to the 2021 Convergence Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 7,8 % of GDP. The drivers of the projected increases in the nominal and primary general government deficit and consequently debt are not explained in detail in the 2021 Convergence Programme and occur despite the expiration of some of the discretionary budgetary measures. These projections are above the Commission's 2021 spring forecast. According to the Commission's 2021 spring forecast, the deficit is expected to decrease to 3,2 % of GDP in 2021 and the debt ratio is expected to decrease to 24,5 % of GDP in 2021. The main source of difference is the projection of other revenue, which according to the 2021 Convergence Programme is expected to decrease by 2,5 percentage points of GDP in 2021, well below historical levels. The drivers of this reduction are not explained in the 2021 Convergence Programme.

(11) In response to the COVID-19 pandemic and related economic downturn, Bulgaria has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures

should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Bulgaria in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary measures adopted by the government in 2020 and 2021 are temporary or matched by offsetting measures.

(12) The 2021 Convergence Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,02 % of GDP in 2020, 0,3 % in 2021, 0,8 % in 2022, 1,4 % in 2023, 1,7 % in 2024, 2,6 % in 2025 and 1,8 % in 2026. The Commission's 2021 spring forecast includes these grants in its budgetary projections.

(13) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(14) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(15) In its 2021 Convergence Programme, Bulgaria's general government deficit is planned to decrease to 2,7 % of GDP in 2022, mainly due to the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to increase to 28,6 % of GDP in 2022. These projections are above the Commission's 2021 spring forecast. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 1,4 % of GDP [6]. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,8 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,4 percentage point of GDP. [7] Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 1 percentage point of GDP.

(16) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges.

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(5) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

(6) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

(7) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,1 percentage point of GDP.

On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience, and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(17) According to the 2021 Convergence Programme's medium-term budgetary plans, the general government deficit is planned to increase to 3,1 % of GDP in 2023. No information on 2024 is provided in the 2021 Convergence Programme. Based on the 2021 Convergence Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,6 % of GDP in 2023. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,6 percentage point of GDP in 2023. Nationally financed investment is projected to provide an expansionary contribution of 0,4 percentage point of GDP in 2023. ([8]) Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,4 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 5 %. ([9]) However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Bulgaria's potential growth.

(18) The general government debt ratio is planned to increase to 29,3 % of GDP in 2023. There is no information on 2024 in the 2021 Convergence Programme. Bulgaria is considered to face low fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(19) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(20) The Council has assessed the 2021 Convergence Programme and the follow-up by Bulgaria to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS BULGARIA TO:

1. In 2022, pursue a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. Keep the growth of nationally financed current expenditure under control.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

([8]) Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,1 percentage point of GDP.

([9]) Estimated by the Commission in accordance with the commonly agreed methodology.

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Convergence Programme of Czechia

(2021/C 304/03)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Czechia to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Czechia to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council ([4]), which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).
([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Czechia and delivering a Council opinion on the 2020 Convergence Programme of Czechia (OJ C 282, 26.8.2020, p. 15).
([4]) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(4) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(5) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(6) On 30 April 2021, Czechia submitted its 2021 Convergence Programme, in line with Article 8 of Regulation (EC) No 1466/97.

(7) In 2020, based on data validated by Eurostat, Czechia's general government deficit was 6,2 % of gross domestic product (GDP), while general government debt increased to 38,1 % of GDP. The annual change in the primary budget balance amounted to - 6,4 % of GDP, including discretionary budgetary measures of 4,6 % in support of the economy and the operation of automatic stabilisers. Czechia also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact), estimated at 6,2 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be roughly equivalent to 1½ % of GDP.

(8) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Czechia, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled.

(9) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and cautious in 2022. The Commission's projection is slightly more optimistic in terms of real GDP growth for 2021 (3,4 % compared to 3,1 % in the 2021 Convergence Programme) and it is even more optimistic for 2022 (4,4 % compared to 3,7 % in the 2021 Convergence Programme), as the Commission expects higher private consumption growth in 2021 and higher gross fixed capital formation in 2022.

(10) In its 2021 Convergence Programme, the government plans an increase in the general government deficit from 6,2 % of GDP in 2020 to 8,8 % of GDP in 2021, while the debt ratio is planned to increase to 44,8 % of GDP in 2021. According to the 2021 Convergence Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 9,0 % of GDP, reflecting the discretionary budgetary measures of 6,5 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast.

(11) In response to the COVID-19 pandemic and related economic downturn, Czechia has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they

should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Czechia in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government over the period 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission’s 2021 spring forecast, in 2023, the cumulative remaining impact of those non-temporary measures is preliminarily estimated at around 2 % of GDP, mainly consisting of reductions in the revenues from personal income tax with an impact of 1,9 % of GDP.

(12) The 2021 Convergence Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,3 % of GDP in 2021, 0,7 % of GDP in 2022 and 0,7 % of GDP in 2023. The Commission’s 2021 spring forecast includes these grants in its budgetary projections.

(13) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(14) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(15) In its 2021 Convergence Programme, Czechia’s general government deficit is planned to decrease to 5,9 % of GDP in 2022, mainly due to a discontinuation of the temporary support measures adopted in 2020 and 2021 and due to the economic recovery. The general government debt ratio is planned to increase to 48,2 % of GDP in 2022. These projections are in line with the Commission’s 2021 spring forecast. Based on the Commission’s 2021 spring forecast, and on the basis of the specific methodology that reflects the above mentioned challenges, the overall fiscal stance –including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,2 % of GDP [6]. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,5 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,3 percentage point of GDP. [7] Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a neutral contribution.

(16) The quality of Member States’ budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges.

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(5) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

(6) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

(7) Other nationally financed capital expenditure is projected to provide a neutral contribution.

On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(17) According to the 2021 Convergence Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 5,4 % in 2023, to 5,2 % of GDP in 2024. The general government deficit is not planned to return below the 3 %-of-GDP Treaty reference value over the programme's horizon. Based on the 2021 Convergence Programme, the overall fiscal stance –including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at + 1,2 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,3 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,1 percentage point of GDP. ([8]) Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,8 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 4¼ % ([9]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Czechia's potential growth.

(18) According to the 2021 Convergence Programme, the general government debt ratio is planned to increase from 51,5 % of GDP in 2023 to 54,6 % of GDP in 2024. Czechia is considered to face medium fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(19) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(20) The Council has assessed the 2021 Convergence Programme and the follow-up by Czechia to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS CZECHIA TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

([8]) Other nationally financed capital expenditure is projected to provide a neutral contribution.
([9]) Estimated by the Commission in accordance with the commonly agreed methodology.

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Convergence Programme of Denmark

(2021/C 304/04)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 [2], facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation [3] ('the Council Recommendation of 20 July 2020'). It recommended Denmark to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Denmark to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

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(1) OJ L 209, 2.8.1997, p. 1.

(2) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6)

(3) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Denmark and delivering a Council opinion on the 2020 Convergence Programme of Denmark (OJ C 282, 26.8.2020, p. 22).

(4) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(4) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(5) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(6) On 29 April 2021, Denmark submitted its 2021 Convergence Programme, in line with Article 8 of Regulation (EC) No 1466/97.

(7) In 2020, based on data validated by Eurostat, Denmark's general government deficit was 1,1 % of gross domestic product (GDP), while general government debt increased to 42,2 % of GDP. The annual change in the primary budget balance amounted to 5,1 % of GDP, including discretionary budgetary measures of 2,8 % of GDP in support of the economy and the operation of automatic stabilisers. Denmark also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact), estimated at 28,4 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission at below ½ % of GDP.

(8) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Denmark, as its general government deficit is planned to exceed the 3 %-of-GDP Treaty reference value in 2021. The report concluded that the deficit criterion was fulfilled.

(9) The macroeconomic scenario underpinning the budgetary projections is cautious in 2021 and realistic in 2022. The 2021 Convergence Programme projects real GDP to grow by 2,1 % in 2021 and 3,8 % in 2022. By comparison, the Commission's 2021 spring forecast projects real GDP growth of 2,9 % in 2021 and 3, 5 % in 2022. The main differences are linked to assumptions about the development of the COVID-19 pandemic and related restrictions in 2021.

(10) In its 2021 Convergence Programme, the government plans an increase of the general government deficit from - 1,1 % of GDP in 2020 to - 3,3 % of GDP in 2021, while the debt ratio is planned to decrease to 40,7 % of GDP in 2021. According to the 2021 Convergence Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to — 7 % of GDP, reflecting the discretionary budgetary measures of 1,2 % of GDP in support of the economy and the operation of automatic stabilisers. The Commission's 2021 spring forecast projects a lower deficit in 2021 reflecting a stronger macroeconomic scenario and a more optimistic revenue forecast from pension yield tax.

(11) In response to the COVID-19 pandemic and related economic downturn, Denmark has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures

should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Denmark in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are temporary or matched by offsetting measures.

(12) The 2021 Convergence Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,2 % of GDP in 2021, 0,2 % in 2022, 0,1 % in 2023, 0,1 % in 2024 and 0,03 % in 2025. The Commission's 2021 spring forecast includes these grants in its budgetary projections.

(13) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted ([5]) and complemented with additional information in order to fully gauge the fiscal policy orientation.

(14) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds.

Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(15) In its 2021 Convergence Programme, Denmark's general government deficit is planned to decrease to 0,9 % of GDP in 2022, mainly due to a discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to increase to 41,3 % of GDP in 2022. These projections are in line with the Commission's 2021 spring forecast. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at + 1,6 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to remain unchanged. Nationally financed investment is projected to provide a neutral contribution ([7]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 1,0 percentage point of GDP.

(16) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer

([5]) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

([7]) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,6 percentage point of GDP.

public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(17) According to the 2021 Convergence Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 0,7 % of GDP in 2023 to 0,6 % of GDP in 2024 and to reach a balance in 2025. Based on the 2021 Convergence Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 0,2 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,1 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,1 percentage point of GDP ([8]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a neutral contribution. The current estimate of the 10-year average nominal potential growth is 3 ½ % ([9]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Denmark's potential growth.

(18) The general government debt ratio is planned in the 2021 Convergence programme to decrease from 41,6 % of GDP in 2023 to 41,3 % of GDP in 2024. Denmark is considered to face low fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(19) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022 if the degree of uncertainty has sufficiently declined by then.

(20) The Council has assessed the 2021 Convergence Programme and the follow-up by Denmark to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS DENMARK TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.
2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.
3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

([8]) Other nationally financed capital expenditure is projected to provide a neutral contribution.

([9]) Estimated by the Commission, in accordance with the commonly agreed methodology.

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Germany

(2021/C 304/05)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 [2], facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation [3] ('the Council Recommendation of 20 July 2020'). It recommended Germany to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Germany to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area of indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

[1] OJ L 209, 2.8.1997, p. 1.
[2] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6)
[3] Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Germany and delivering a Council opinion on the 2020 Stability Programme of Germany (OJ C 282, 26.8.2020, p. 27).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Germany was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 27 April 2021, Germany submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Germany's general government deficit was 4,2 % of gross domestic product (GDP), while general government debt increased to 69,8 % of GDP. The annual change in the primary budget balance amounted to - 5,9 % of GDP, including discretionary budgetary measures of - 3½ % of GDP in support of the economy and the operation of automatic stabilisers. Germany also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 25 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be roughly equivalent to 1½ % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Germany, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value and did not diminish at a satisfactory pace. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

([4]) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and cautious in 2022. The 2021 Stability Programme projects real GDP growth of 3,0 % in 2021 and 2,6 % in 2022, compared to the Commission's 2021 spring forecast projections of 3,4 % and 4,1 % respectively. The difference stems from the expectation by the authorities of a faster-than-anticipated recovery in private consumption, but less vigorous export growth in 2021. For 2022, the Commission's 2021 spring forecast is driven by a delayed but strong rebound in consumption. Projections in the 2021 Stability Programme assume a return to the pre-crisis level of output in the course of 2022, while employment and private consumption are expected to take somewhat longer to recover.

(12) In its 2021 Stability Programme, the government plans an increase in the general government deficit from 4,2 % of GDP in 2020 to 9 % of GDP in 2021, while the debt ratio is planned to further increase to 74½ % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 10,6 % of GDP, reflecting the discretionary budgetary measures of 6¼ % of GDP in support of the economy and the operation of automatic stabilisers. In its 2021 spring forecast, the Commission expects a lower budgetary impact of the measures to fight the COVID-19 pandemic and support the economy, projecting a lower deficit than in the 2021 Stability Programme, at 7,5 % of GDP in 2021, with a debt ratio of 73,1 % of GDP.

(13) In response to the COVID-19 pandemic and related economic downturn, Germany has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Germany in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government over the period 2020 to 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's 2021 spring forecast, in 2023, the cumulative remaining impact of those non-temporary measures is preliminarily estimated at around 1 % of GDP. Those non-temporary measures also include investment of approximately $^{1}/_{10}$ % of GDP, which is expected to support medium-term potential growth and thus sustainability.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,03 % of GDP in 2020, 0,3 % in 2021, 0,1 % in 2022, 0,1 % in 2023, 0,1 % in 2024, 0,1 % in 2025 and 0,04 % in 2026. The Commission's 2021 spring forecast includes these grants in its budgetary projections.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary

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[5] In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Germany's general government deficit is planned to decrease to 3 % of GDP in 2022, mainly due to the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to decrease to 74 % of GDP in 2022. These projections are in line with the Commission's 2021 spring forecast. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at + 0,5 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,1 percentage point of GDP. Nationally financed investment is projected to provide an expansionary contribution of 0,2 percentage point of GDP. ([7]) Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,3 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 1½ % in 2023 to ½ % of GDP in 2024, reaching a balanced budget of 0 % of GDP in 2025. Based on the 2021 Stability Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at + 0,9 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to remain unchanged. Nationally financed investment is projected to provide a neutral contribution ([8]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,7 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 2¾ % ([9]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Germany's potential growth.

(20) The general government debt ratio is planned to decrease from 73¼ % of GDP in 2023 to 72 % of GDP in 2024. Germany is considered to face low fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Germany to the Council Recommendation of 20 July 2020,

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

([7]) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,2 percentage point of GDP.

([8]) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,1 percentage point of GDP.

([9]) Estimated by the Commission in accordance with the commonly agreed methodology.

HEREBY RECOMMENDS GERMANY TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.
2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.
3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Estonia

(2021/C 304/06)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular: Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Estonia to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Estonia to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy, and sustainability of health and social protection systems for all.

([1]) OJ L 209, 2.8.1997, p. 1.

([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Estonia and delivering a Council opinion on the 2020 Stability Programme of Estonia (OJ C 282, 26.8.2020, p. 33).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Estonia was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 30 April 2021, Estonia submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Estonia's general government deficit was 4,9 % of gross domestic product (GDP), while general government debt increased to 18,2 % of GDP. The annual change in the primary budget balance amounted to - 4,7 % of GDP, including discretionary budgetary measures of 2,7 % [5] in support of the economy and the operation of automatic stabilisers. Estonia also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 1,5 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission at below ½ % of GDP.

[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

[5] The 2021 Stability Programme does not include an estimate of the total amount of discretionary budgetary measures.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Estonia, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled.

(11) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and 2022. According to the 2021 Stability Programme, real GDP growth is projected to be 2,5 % in 2021 and 4,8 % in 2022. This is in line with the Commission's 2021 spring forecast, which shows real GDP growth of 2,8 % in 2021 and 5,0 % in 2022.

(12) In its 2021 Stability Programme, the government plans an increase in the general government deficit from 4,9 % of GDP in 2020 to 6 % of GDP in 2021, while the debt ratio is planned to increase to 21,4 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to 6,3 % of GDP, reflecting the discretionary budgetary measures of 3,3 % of GDP taken over 2020 and 2021 in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast.

(13) In response to the COVID-19 pandemic and related economic downturn, Estonia has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Estonia in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government over the period 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's 2021 spring forecast, in 2023, the cumulative remaining impact of those non-temporary measures is preliminarily estimated at around 1 % of GDP, mainly consisting of current expenditures. Those non-temporary measures also include investment of approximately ⅓ % of GDP, which is expected to support medium-term potential growth, and thus sustainability.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,4 % in 2021, 0,5 % in 2022, 0,7 % in 2023, and 0,7 % in 2024. The Commission's 2021 spring forecast includes these grants in its budgetary projections.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [6] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures) including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the

(6) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Estonia's general government deficit is planned to decrease to 3,8 % of GDP in 2022, mainly due to the economic recovery and a discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to increase to 24,6 % of GDP in 2022. These projections are in line with the Commission's 2021 spring forecast. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above mentioned challenges, the overall fiscal stance –including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at + 1,6 % of GDP ([7]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,2 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,2 percentage point of GDP ([8]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 1,7 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the laevel and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 3,2 % in 2023 to 2,2 % of GDP in 2024. The general government deficit is thus planned to no longer exceed 3 %-of-GDP Treaty reference value in 2024. Based on the 2021 Stability Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 1,1 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,1 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,4 percentage point of GDP ([9]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,5 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 5¾ % ([10]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Estonia's potential growth.

(20) The general government debt ratio is planned to increase from 27,4 % of GDP in 2023 to 28 % of GDP in 2024. Estonia is considered to face low fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Estonia to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS ESTONIA TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

(7) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.
(8) Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,2 percentage point of GDP.
(9) Other nationally financed capital expenditure is projected to provide a neutral contribution.
(10) Estimated by the Commission in accordance with the commonly agreed methodology.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Ireland

(2021/C 304/07)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Ireland to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Ireland to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

([1]) OJ L 209, 2.8.1997, p. 1.

([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6)

([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Ireland and delivering a Council opinion on the 2020 Stability Programme of Ireland (OJ C 282, 26.8.2020, p. 39).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Ireland was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 30 April 2021, Ireland submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Ireland's general government deficit was 5,0 % of gross domestic product (GDP), while general government debt increased to 59,5 % of GDP. The annual change in the primary budget balance amounted to - 5,7 % of GDP, including discretionary budgetary measures of 3,9 % in support of the economy and the operation of automatic stabilisers. Ireland also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 1,2 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be below ½ % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Ireland, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled.

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[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and 2022. Following real GDP growth of 3,4 % in 2020, the Stability Programme projects growth of 4,5 % in 2021, in line with the Commission's 2021 spring forecast. In 2022, both the 2021 Stability Programme and the Commission project annual real GDP growth at 5,0 %.

(12) In its 2021 Stability Programme, the government plans a decrease in the general government deficit from 5,0 % of GDP in 2020 to 4,7 % of GDP in 2021, while the debt ratio is planned to increase to 62,2 % of GDP in 2021. According to the 2021 Stability Programme, the deterioration in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to 5,4 % of GDP, reflecting discretionary budgetary measures of 3,5 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast.

(13) In response to the COVID-19 pandemic and related economic downturn, Ireland has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Ireland in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,02 % of GDP in 2022, 0,07 % in 2023, 0,06 % in 2024 and 0,04 % in 2025. The Commission's 2021 spring forecast assumes a simplified and linear integration of expenditure financed by the Recovery and Resilience Facility amounting to 0,06 % in 2021 and 0,04 % in 2022.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures) including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Ireland's general government deficit is planned to decrease to 2,8 % of GDP in 2022, mainly due to the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to decrease to 60,2 % of GDP in 2022. These projections are in line with

(5) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

the Commission's 2021 spring forecast. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,4 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,2 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,2 percentage point of GDP. ([7]) Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 0,2 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 1,2 % of GDP in 2023 to 0,7 % of GDP in 2024 and 0,2 % of GDP in 2025. Based on the 2021 Stability Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 1,6 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to remain unchanged. Nationally financed investment is projected to provide an expansionary contribution of 0,1 percentage point of GDP. ([8]) Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 1,4 percentage points of GDP. The current estimate of the 10-year average nominal potential growth is 6½ % ([9]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Ireland's potential growth.

(20) The general government debt ratio is planned to decrease from 59,0 % of GDP in 2023 to 57,7 % of GDP in 2024. Ireland is considered to face low fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Ireland to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS IRELAND TO:

1. In 2022, pursue a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.
([7]) Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,1 percentage point of GDP.
([8]) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,3 percentage point of GDP.
([9]) Estimated by the Commission, in accordance with the commonly agreed methodology.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the national budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Greece

(2021/C 304/08)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Greece to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Greece to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

([1]) OJ L 209, 2.8.1997, p. 1.

([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6)

([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Greece and delivering a Council opinion on the 2020 Stability Programme of Greece (OJ C 282, 26.8.2020, p. 46).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Greece was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) Following its successful completion of the financial assistance programme under the European Stability Mechanism in 2018, Greece is subject to enhanced surveillance in accordance with Regulation (EU) No 472/2013 of the European Parliament and of the Council [5]. The activation of enhanced surveillance for Greece under Commission Implementing Decisions (EU) 2018/1192 [6] and (EU) 2021/271 [7] acknowledges the fact that over the medium term, Greece needs to continue adopting measures to address the potential sources of macroeconomic imbalances while implementing structural reforms to support a robust and sustainable economic growth. Greece made a commitment at the meeting of the Eurogroup of 22 June 2018 to continue all key reforms adopted under the programme until they are fully completed. Greece also committed to implement specific measures related to fiscal

(4) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(5) Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.5.2013, p. 1).

(6) Commission Implementing Decision (EU) 2018/1192 of 11 July 2018 on the activation of enhanced surveillance for Greece (OJ L 211, 22.8.2018, p. 1).

(7) Commission Implementing Decision (EU) 2021/271 of 17 February 2021 on the prolongation of enhanced surveillance for Greece (OJ L 61, 22.2.2021, p. 3).

and fiscal-structural policies, social welfare, financial stability, labour and product markets, privatisation, the functioning of the justice system, public administration and anti-corruption. These structural reforms are increasingly important in the context of Greece's efforts to restart its economy. The successful implementation and completion of these reforms should significantly help support Greece's growth in the medium and long term. Greece is subject to quarterly reporting on its progress in implementing its commitments under enhanced surveillance. A favourable report can, on a semiannual basis, pave the way for the release of debt-relief measures worth 0,7 % of gross domestic product (GDP) per year. The release of the first four instalments of policy-contingent debt measures worth EUR 3 252 million in total was agreed by the Eurogroup in April 2019, December 2019, June 2020 and November 2020 respectively. The tenth enhanced surveillance report assessing Greece's progress in implementing its commitments was published on 2 June 2021.

(9) On 29 April 2021, Greece submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(10) In 2020, based on data validated by Eurostat, Greece's general government deficit was 9,7 % of GDP, while general government debt increased to 205,6 % of GDP. The annual change in the primary budget balance amounted to 11,3 % of GDP, including discretionary budgetary measures of 5,9 % of GDP in support of the economy and the operation of automatic stabilisers. Greece also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 2,2 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission at below ½ % of GDP.

(11) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Greece, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value and did not diminish at a satisfactory pace. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

(12) The macroeconomic scenario underpinning the budgetary projections is cautious in 2021 and expects real GDP growth to be around 0,5 percentage point lower than the Commission's 2021 spring forecast. This difference is due to different assumptions on the development of the COVID-19 pandemic, the uptake of funds under the Recovery and Resilience Facility, and the pace of recovery of the tourism sector. The macroeconomic projections under the 2021 Stability Programme for 2022 are closely aligned with the Commission's 2021 spring forecast.

(13) In its 2021 Stability Programme, the government plans an increase in the general government deficit from 9,7 % of GDP in 2020 to 9,9 % of GDP in 2021, while the debt ratio is planned to decrease to 204,8 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 11,6 % of GDP, reflecting the discretionary budgetary measures of 6,4 % of GDP in support of the economy and the operation of automatic stabilisers. Projections of the general government deficit are in line with the Commission's 2021 spring forecast. Regarding the debt ratio, the projections presented in the 2021 Stability Programme are below the Commission's 2021 spring forecast, which expects the debt ratio to reach 208,8 % of GDP. The difference reflects different assumptions on privatisation proceeds, net accumulation of financial assets and cash-accrual adjustments.

(14) In response to the COVID-19 pandemic and related economic downturn, Greece has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Greece in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 and announced for 2022 are temporary or matched by offsetting measures.

(15) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,9 % of GDP in 2021, 1,7 % of GDP in 2022, 1,6 % of GDP in 2023, 1,6 % of GDP in 2024, 1,5 % of GDP in 2025 and 1,5 % of GDP in 2026. The programme also assumes loans under the Recovery and Resilience Facility amounting to 1,4 % of GDP in 2021, 1,4 % of GDP in 2022, 1,1 % of GDP in 2023, 1,1 % of

GDP in 2024, 1 % of GDP in 2025 and 0,5 % in 2026. The Commission's 2021 spring forecast includes these grants in its budgetary projections, while for the loans it assumes a lower amount in 2022 based on a uniform annual disbursement after 2021.

(16) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [8] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(17) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(18) In its 2021 Stability Programme, Greece's general government deficit is planned to decrease to 2,9 % of GDP in 2022, mainly due to the expected economic recovery and the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to decrease to 189,5 % of GDP in 2022. The projections of the general government deficit are in line with the Commission's 2021 spring forecast. Regarding the debt ratio, the projections presented in the 2021 Stability Programme are below the Commission's 2021 spring forecast. The difference is explained by different assumptions on cash balance, on privatisation proceeds and net accumulation of financial assets. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is projected at - 2,4 % of GDP. [9] The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to provide an increase by 0,3 percentage point of GDP. Nationally financed investment is projected to provide an expansionary contribution of 0,9 percentage point of GDP. [10] Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 0,3 percentage point of GDP.

(19) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

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(8) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

(9) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy

(10) Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,9 percentage point of GDP.

(20) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to reach 0,4 % of GDP in 2023 and turn into a surplus of 0,6 % of GDP in 2024. Based on the 2021 Stability Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 0,6 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,1 percentage point of GDP. Nationally financed investment is projected to provide a neutral contribution ([11]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,6 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 1¼ % ([12]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Greece's potential growth.

(21) The general government debt ratio is planned to decrease from 176,7 % of GDP in 2023 to 166,1 % of GDP in 2024. In light of Greece's high debt ratio, which is projected to only gradually fall over time, Greece is considered to face high fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis. The 10th enhanced surveillance report points to other factors relevant for an overall assessment of debt sustainability, namely that the composition and maturity profile of government debt mitigates debt vulnerabilities, while contingent liabilities are an additional risk.

(22) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(23) The Council has assessed the 2021 Stability Programme and the follow-up by Greece to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS GREECE TO:

1. In 2022, use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Preserve nationally financed investment.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

([11]) Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,1 percentage point of GDP.

([12]) Estimated by the Commission in accordance with the commonly agreed methodology.

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Spain

(2021/C 304/09)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Spain to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Spain to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

([1]) OJ L 209, 2.8.1997, p. 1.

([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Spain and delivering a Council opinion on the 2020 Stability Programme of Spain (OJ C 282, 26.8.2020, p. 54).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Spain was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 30 April 2021, Spain submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Spain's general government deficit was at 11,0 % of gross domestic product (GDP), while general government debt increased to 120,0 % of GDP. The annual change in the primary budget balance amounted to 8,1 % of GDP, including discretionary budgetary measures of 4,0 % of GDP in support of the economy and the operation of automatic stabilisers. Spain also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 15 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be roughly equivalent to 8 % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Spain, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value and did not diminish at a satisfactory pace. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

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[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and 2022. The deviation of 0,6 percentage point of GDP between the Commission's estimates (5,9 %) and the 2021 Stability Programme's (6,5 %) estimates for GDP growth in 2021 is explained by the somewhat different spending profiles linked to grants under the Recovery and Resilience Facility. The Commission projects a more gradual absorption of the grants under the Recovery and Resilience Facility whereas the 2021 Stability Programme's macroeconomic scenario is based on a more frontloaded use of the funds, resulting in higher economic growth. In 2022, projections are broadly in line with only minor discrepancy.

(12) In its 2021 Stability Programme, the government plans an decrease in the general government deficit from 11,0 % of GDP in 2020 to 8,4 % of GDP in 2021, while the debt ratio is planned to decrease to 119,5 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to 5,8 % of GDP, reflecting the discretionary budgetary measures in support of the economy and the operation of automatic stabilisers. These projections are above the Commission's 2021 spring forecast, which projects the deficit at 7,6 % of GDP. The difference is explained by the difference in the projections for government expenditure. In particular, the Commission projects the government expenditure on social transfers and other expenditure to be smaller than projected in the 2021 Stability Programme.

(13) In response to the COVID-19 pandemic and related economic downturn, Spain has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Spain in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary measures adopted by the government in 2020 and 2021 are temporary or matched by offsetting measures.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,04 % of GDP in 2020, 1,8 % in 2021, 1,9 % in 2022, 1,4 % in 2023, and 0,1 % in 2024. The financing from the Recovery and Resilience Facility is planned to be used almost entirely within the 2021 Stability Programme period, as about 95 % of the grants under the Recovery and Resilience Facility allocated to Spain would be used in 2021-2023. The 2021 Stability Programme also indicates the possibility to request loans under the Recovery and Resilience Facility amounting to 6,3 % of GDP at a later stage. This could double the size of the Spanish recovery and resilience plan. The 2021 Stability Programme's fiscal projections however do not include the direct impact of the grants under the Recovery and Resilience Facility on expenditure and revenue plans, but only the indirect impact related to higher GDP growth. The Commission's 2021 spring forecast does not fully include the grants under the Recovery and Resilience Facility as planned by Spain in its budgetary projections until 2022 due to different assumptions on when projects under the Spanish recovery and resilience plan advance to a stage where expenditure will effectively take place so that they would also start having impact on GDP growth.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain

(5) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Spain's general government deficit is planned to decrease to 5,0 % of GDP in 2022, mainly due to a discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to decrease to 115,1 % of GDP in 2022. These projections are broadly in line with the Commission's 2021 spring forecast. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,5 % of GDP [6]. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,6 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,2 percentage point of GDP [7]. Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,4 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 4,0 % in 2023, to 3,2 % of GDP in 2024. The general government deficit is not planned to return below 3 % of GDP over the 2021 Stability Programme's horizon. Based on the 2021 Stability Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at + 0,9 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,9 percentage point of GDP. Nationally financed investment is projected to provide a neutral contribution [8]. Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 0,2 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 2½ %. However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Spain's potential growth.

(20) The general government debt ratio is planned to decrease from 113,3 % of GDP in 2023 to 112,1 % of GDP in 2024. In light of the high debt ratio, which is projected to only gradually fall over time, Spain is considered to face high fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

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(6) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

(7) Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,5 percentage point of GDP.

(8) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,2 percentage point of GDP.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative and include some differentiated quantified element as part of the medium-term guidance. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by the Spain to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS SPAIN TO:

1. In 2022, use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Preserve nationally financed investment.
2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.
3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of France

(2021/C 304/10)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 [2], facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation [3] ('the Council Recommendation of 20 July 2020'). It recommended France to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended France to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

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[1] OJ L 209, 2.8.1997, p. 1.

[2] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6)

[3] Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of France and delivering a Council opinion on the 2020 Stability Programme of France (OJ C 282, 26.8.2020, p. 62).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of France was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty. However, some measures did not appear to be temporary or matched by offsetting measures.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 30 April 2021, France submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, France's general government deficit was 9,2 % of gross domestic product (GDP), while general government debt increased to 115,7 % of GDP. The annual change in the primary budget balance amounted to - 6,2 % of GDP, including discretionary budgetary measures of 3,3 % of GDP in support of the economy and the operation of automatic stabilisers. France also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 17,4 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be roughly equivalent to 6 % of GDP.

[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of France, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value and did not diminish at a satisfactory pace. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

(11) The macroeconomic scenario underpinning the budgetary projections is cautious in 2021 and 2022. The 2021 Stability Programme projects GDP growth at 5 % and 4 % in 2021 and 2022 respectively, whereas the Commission projects GDP to expand by 5,7 % and 4,2 % in the same years. For 2021, the higher growth expected by the Commission is due to a higher contribution to growth from domestic and net exports than in the 2021 Stability Programme. Specifically, the Commission envisages a less dynamic private consumption, whereas investment and exports are expected to expand more quickly than in the macroeconomic scenario in the 2021 Stability Programme. For 2022, the higher growth projected by the Commission is mainly due to a higher contribution of net exports to growth, whereas the overall contribution of domestic demand is set to be broadly similar to that in the 2021 Stability Programme.

(12) In its 2021 Stability Programme, the government plans a decrease in the general government deficit from 9,2 % of GDP in 2020 to 9,0 % of GDP in 2021, while the debt ratio is planned to increase to 117,8 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 6,2 % of GDP, reflecting the discretionary budgetary measures of 4,0 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast.

(13) In response to the COVID-19 pandemic and related economic downturn, France has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by France in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government over the period 2020 to 2021, and announced for 2022, do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's 2021 spring forecast, in 2023, the cumulative remaining impact of those non-temporary measures is preliminarily estimated at around 1 % of GDP, mainly consisting of a permanent reduction in taxes on production, the increase of civil servant wages, mainly in the healthcare system as well as capital transfers. Those non-temporary measures also include investment of approximately $^{1}/_{10}$ % of GDP, which is expected to support medium-term potential growth, and thus sustainability.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,7 % of GDP in 2021 and 0,9 % as of 2022. The Commission's 2021 spring forecast includes in its budgetary projections estimated grants of 0,8 % and 0,4 % of GDP in 2021 and 2022, respectively.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

([5]) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for the proper assessment of the fiscal support for the recovery provided by nationally financed investments.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, France's general government deficit is planned to decrease to 5,3 % of GDP in 2022, mainly due to a discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to decrease to 116,3 % of GDP in 2022. While the debt projection is in line with the Commission's 2021 spring forecast, the deficit projection is above the Commission's 2021 spring forecast, mainly due to the lower deficit expected by the Commission in 2021 and the slightly less favourable macroeconomic scenario in the 2021 Stability Programme. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated to be neutral ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,3 percentage point of GDP. Nationally financed investment is projected to provide an expansionary contribution of 0,2 percentage point of GDP ([7]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 0,2 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow improving the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 4,4 % in 2023, to 3,9 % in 2024, 3,5 % in 2025, 3,2 % in 2026. The general government deficit is planned to no longer exceed 3 % of GDP in 2027 when it will reach 2,8 % of GDP. Based on the 2021 Stability Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 0,4 % of GDP in 2023 and 2024 on average. The programme does not include the information required to estimate the contributions of Union-financed expenditure, nationally financed investment and nationally financed primary current expenditure to the overall fiscal stance. The current estimate of the 10-year average nominal potential growth is 2 ¼ % ([8]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost France's potential growth.

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

([7]) Other nationally financed capital expenditure is projected to provide a neutral contribution.

([8]) Estimated by the Commission, in accordance with the commonly agreed methodology.

(20) The general government debt ratio is planned to increase from 117,2 % of GDP in 2023 to 118,0 % in 2024 and to 118,3 % of GDP in 2025, before reducing to 118,2 % and 117,7 % of GDP in 2026 and 2027, respectively. In light of the high debt ratio, which is projected to only gradually fall over time, France is considered to face high fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by France to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS FRANCE TO:

1. In 2022, use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Preserve nationally financed investment.
2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.
3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Convergence Programme of Croatia

(2021/C 304/11)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 [2], facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation [3] ('the Council Recommendation of 20 July 2020'). It recommended Croatia to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Croatia to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

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[1] OJ L 209, 2.8.1997, p. 1.

[2] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6)

[3] Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Croatia and delivering a Council opinion on the 2020 Convergence Programme of Croatia (OJ C 282, 26.8.2020, p. 68).

[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(4) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(5) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(6) On 29 April 2021, Croatia submitted its 2021 Convergence Programme, in line with Article 8 of Regulation (EC) No 1466/97.

(7) In 2020, based on data validated by Eurostat, Croatia's general government deficit was 7,4 % of gross domestic product (GDP), while general government debt increased to 88,7 % of GDP. The annual change in the primary budget balance amounted to - 8,1 % of GDP, including discretionary budgetary measures of 3,8 % of GDP in support of the economy and the operation of automatic stabilisers. Croatia also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 4,6 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission at below ½ % of GDP.

(8) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Croatia, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value and did not diminish at a satisfactory pace. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

(9) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and favourable in 2022. Most notably, it projects somewhat stronger growth than the Commission's 2021 spring forecast in 2021 (5,2 % compared to 5 %) and in particular in 2022 (6,6 % compared to 6,1 %). This is primarily due to the more positive projections of household consumption and investment, while the Commission's 2021 spring forecast is slightly more optimistic on the contribution of exports.

(10) In its 2021 Convergence Programme, the government plans a decrease in the general government deficit from 7,4 % of GDP in 2020 to 3,8 % of GDP in 2021, while the debt ratio is planned to decrease to 86,6 % of GDP in 2021. According to the 2021 Convergence Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 4,6 % of GDP, reflecting the discretionary budgetary measures in support of the economy and the operation of automatic stabilisers. In comparison, the Commission's 2021 spring

forecast does not project the deficit to narrow as much in 2021 (4,6 % of GDP). The differences are most pronounced on the revenue side, which the 2021 Convergence Programme projects to rebound well in excess of the nominal GDP growth rate. Meanwhile, reconstruction following the 2020 earthquakes in Zagreb and Petrinja is expected to have an impact, although exceptional, on expenditure.

(11) In response to the COVID-19 pandemic and related economic downturn, Croatia has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Croatia in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures. Beyond the horizon of the Commission's 2021 spring forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 0,3 % of GDP, mainly consisting of income tax cuts.

(12) The 2021 Convergence Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,4 % of GDP in 2021, 1,9 % in 2022, 2,4 % in 2023, 2,3 % in 2024, 1,7 % in 2025 and 1 % in 2026. The Commission's 2021 spring forecast includes these grants in its budgetary projections at a broadly similar pace in 2021 and 2022.

(13) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(14) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(15) In its 2021 Convergence Programme, Croatia's general government deficit is planned to decrease to 2,6 % of GDP in 2022, mainly due to strong revenue growth and the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to decrease to 82,5 % of GDP in 2022. The Commission's 2021 spring forecast projects a higher deficit and debt ratio in 2022, at 3,2 % of GDP and 82,9 % of

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[5] In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

GDP, respectively, the difference being largely due to the base effect from 2021. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 2,4 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 1,5 percentage points of GDP. Nationally financed investment is projected to provide an expansionary contribution of 0,1 percentage point of GDP. ([7]) Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 0,8 percentage point of GDP.

(16) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(17) According to the 2021 Convergence Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 1,9 % of GDP in 2023 to 1,5 % of GDP in 2024. Based on the 2021 Convergence Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,1 % of GDP in 2023 and 2024 on average. Expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to provide a contractionary contribution of 0,6 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,1 percentage point of GDP. ([8]) Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 0,6 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 3¼ % ([9]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Croatia's potential growth.

(18) The general government debt ratio is planned to decrease from 79,5 % of GDP in 2023 to 76,8 % of GDP in 2024. Croatia is considered to face medium fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(19) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(20) The Council has assessed the 2021 Convergence Programme and the follow-up by Croatia to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS CROATIA TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. Keep the growth of nationally financed current expenditure under control.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.
([7]) Other nationally financed capital expenditure is projected to provide a neutral contribution.
([8]) Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,2 percentage point of GDP.
([9]) Estimated by the Commission in accordance with the commonly agreed methodology.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Italy

(2021/C 304/12)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Italy to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Italy to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6)
([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Italy and delivering a Council opinion on the 2020 Stability Programme of Italy (OJ C 282, 26.8.2020, p. 74).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Italy was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty. However, some measures did not appear to be temporary or matched by offsetting measures.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 30 April 2021, Italy submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Italy's general government deficit was 9,5 % of gross domestic product (GDP), while general government debt increased to 155,8 % of GDP. The annual change in the primary budget balance amounted to 8,0 % of GDP, including discretionary budgetary measures in support of the economy and the operation of automatic stabilisers. Italy also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 24,8 % of GDP; the actual takeup of this liquidity support in 2020 was roughly equivalent to 7 % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Italy, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value and did not diminish at a satisfactory pace. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

([4]) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and 2022. The 2021 Stability Programme projects real GDP to grow by 4,5 % in 2021 and 4,8 % in 2022. By comparison, the Commission's 2021 spring forecast projects a moderately lower real GDP growth of 4,2 % in 2021 and 4,4 % in 2022, mainly due to the lower expected use of Recovery and Resilience Facility grants in 2021 and 2022 based on the more recent indications provided in the national recovery and resilience plan.

(12) In its 2021 Stability Programme, the government plans an increase in the general government deficit from 9,5 % of GDP in 2020 to 11,8 % of GDP in 2021, while the debt ratio is planned to increase to 159,8 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to 10,4 % of GDP, reflecting the discretionary budgetary measures in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast.

(13) In response to the COVID-19 pandemic and related economic downturn, Italy has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Italy in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government over the period 2020 to 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's 2021 spring forecast, in 2023, the cumulative remaining impact of those non-temporary measures is preliminarily estimated at around 1 % of GDP, mainly consisting of a reduction of social security contributions in poorer regions, the extension of the tax credit on employment income and the introduction of a family allowance. Those non-temporary measures also include investment of approximately ⅓ % of GDP, which is expected to support medium-term potential growth, and thus sustainability.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,6 % of GDP in 2021, 0,9 % in 2022, 1,4 % in 2023, 0,5 % in 2024 and 0,2 % in 2025. The 2021 Stability Programme also assumes investment and reforms financed by loans under the Recovery and Resilience Facility amounting to 0,3 % of GDP in 2020, 0,8 % of GDP in 2021, 0,9 % in 2022, 0,7 % in 2023, 1,3 % in 2024, 1,2 % in 2025 and 1,0 % in 2026. The Commission's 2021 spring forecast does not fully include these grants in its budgetary projections, in line with the more recent indications provided in the national recovery and resilience plan, which was finalised after the 2021 Stability Programme. Instead, the Commission's 2021 spring forecast assumes that investments and reforms financed by the Recovery and Resilience Facility grants will amount to 0,3 % of GDP in 2021 and 0,7 % of GDP in 2022.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted ([5]) and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure

([5]) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

aggregate. The overall fiscal stance is then measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Italy's general government deficit is planned to decrease to 5,9 % of GDP in 2022, mainly due to a discontinuation of the temporary support measures adopted in 2020 and 2021 and the lower support from the automatic stabilisers. The general government debt ratio is planned to decrease to 156,3 % of GDP in 2022. These projections are in line with the Commission's 2021 spring forecast. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 2,2 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,4 percentage point of GDP. Nationally financed investment is projected to provide an expansionary contribution of 0,3 percentage point of GDP ([7]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 1,3 percentage points of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 4,3 % in 2023, to 3,4 % of GDP in 2024. The general government deficit is therefore not planned to return below 3 % of GDP over the programme horizon. Based on the 2021 Stability Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 0,4 % of GDP in 2023 and 2024 on average ([8]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,4 percentage point of GDP. Nationally financed investment is projected to provide an expansionary contribution of 0,2 percentage point of GDP ([9]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a neutral contribution. The current estimate of the 10-year average nominal potential growth is 2 % ([10]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Italy's potential growth.

(20) The general government debt ratio is planned to decrease from 155 % of GDP in 2023 to 152,7 % of GDP in 2024. In light of the high debt ratio, which is projected to only gradually fall over time, Italy is considered to face high fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

([7]) Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,2 percentage point of GDP.

([8]) The estimates presented in this recital are based on the detailed budgetary projections transmitted by Italy with the 2021 Stability Programme. Except for the overall figures for government deficit and debt, the projections transmitted by Italy do not take into account the fiscal package announced for May 2021. This package, adopted on 20 May 2021, included additional emergency support in 2021 as well as more resources for nationally financed investment projects in the coming years.

([9]) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,2 percentage point of GDP.

([10]) Estimated by the Commission, in accordance with the commonly agreed methodology.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Italy to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS ITALY TO:

1. In 2022, use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Preserve nationally financed investment. Limit the growth of nationally financed current expenditure.
2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.
3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Cyprus

(2021/C 304/13)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Cyprus to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Cyprus to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

([1]) OJ L 209, 2.8.1997, p. 1.

([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6)

([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Cyprus and delivering a Council opinion on the 2020 Stability Programme of Cyprus (OJ C 282, 26.8.2020, p. 82).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Cyprus was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 29 April 2021, Cyprus submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Cyprus's general government deficit was 5,7 % of gross domestic product (GDP), while general government debt increased to 118,2 % of GDP. The annual change in the primary budget balance amounted to - 7,6 % of GDP, including discretionary budgetary measures of 3,6 % in support of the economy and the operation of automatic stabilisers. Cyprus also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 1,9 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be below ½ % of GDP.

([4]) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Cyprus, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value and did not diminish at a satisfactory pace. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

(11) The macroeconomic scenario underpinning the budgetary projections is favourable in 2021 and 2022. According to the Commission's 2021 spring forecast, Cyprus's real GDP is expected to grow by 3,1 % in 2021 and 3,8 % in 2022. According to the 2021 Stability Programme, the Cypriot economy is expected to grow by 3,6 % in 2021 and 3,8 % in 2022. The 2021 Stability Programme's comparatively higher growth rate in 2021 is driven by stronger private consumption.

(12) In its 2021 Stability Programme, the government plans a decrease in the general government deficit from 5,7 % of GDP in 2020 to 4,7 % of GDP in 2021, while the debt ratio is planned to decrease to 111,9 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 6,5 % of GDP, reflecting the discretionary budgetary measures of 3,4 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast.

(13) In response to the COVID-19 pandemic and related economic downturn, Cyprus has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Cyprus in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,6 % in 2021, 0,4 % in 2022, 0,4 % in 2023, and 0,4 % in 2024. In contrast, the Commission's 2021 spring forecast assumes that the total budgetary impact of reforms and investments entailed in the recovery and resilience plan amounts to 0,3 % of GDP in 2021 and 0,5 % of GDP in 2022.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary

(5) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Cyprus's general government deficit is planned to decrease to 0,9 % of GDP in 2022, mainly due to the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to decrease to 103,9 % of GDP in 2022. These projections are below the Commission's 2021 spring forecast. The Commission forecasts a deficit of 2 % of GDP, mainly due to higher expected expenditure and lower revenue, and a general government debt ratio of 106,6 % of GDP in 2022. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,3 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase 0,4 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,1 percentage point of GDP ([7]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,1 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government surplus is planned to increase from 0,1 % in 2023, to 1,6 % of GDP in 2024. Based on the 2021 Stability Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 2,8 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,1 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,1 percentage point of GDP ([8]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 2,8 percentage points of GDP. The current estimate of the 10-year average nominal potential growth is 3½ % ([9]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Cyprus's potential growth.

(20) The general government debt ratio is planned to decrease from 99,5 % of GDP in 2023 to 92,9 % of GDP in 2024. Cyprus is considered to face medium fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.
([7]) Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,1 percentage point of GDP.
([8]) Other nationally financed capital expenditure is projected to provide a neutral contribution.
([9]) Estimated by the Commission, in accordance with the commonly agreed methodology.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Cyprus to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS CYPRUS TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.
2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.
3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the national budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Latvia

(2021/C 304/14)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Latvia to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Latvia to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy, and sustainability of health and social protection systems for all.

([1]) OJ L 209, 2.8.1997, p. 1.

([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Latvia and delivering a Council opinion on the 2020 Stability Programme of Latvia (OJ C 282, 26.8.2020, p. 89).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Latvia was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 15 April 2021, Latvia submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Latvia's general government deficit was 4,5 % of gross domestic product (GDP), while general government debt increased to 43,5 % of GDP. The annual change in the primary budget balance amounted to - 4 % of GDP, including discretionary budgetary measures of 3,5 % of GDP in support of the economy and the operation of automatic stabilisers. Latvia also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 1,7 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission at below ½ % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Latvia, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled.

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[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The macroeconomic scenario underpinning the budgetary projections is cautious in 2021 and 2022. Real GDP growth rates are projected to be lower in the 2021 Stability Programme than in the Commission's 2021 spring forecast, mostly due to lower export growth. Moreover, the 2021 Stability Programme projects a further decline in employment in 2021 and a slower recovery in 2022 than the Commission's 2021 spring forecast.

(12) In its 2021 Stability Programme, the government plans an increase of the general government deficit from 5,4 % of GDP in 2020 to 9,3 % of GDP in 2021, while the debt ratio is planned to increase to 48,9 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 8,7 % of GDP, reflecting the discretionary budgetary measures of 2,9 % of GDP in support of the economy and the operation of automatic stabilisers. The deficit and debt projections are above the Commission's 2021 spring forecast. The 2021 Stability Programme projects a higher increase in expenditure, in particular in other expenditure, than the Commission's 2021 spring forecast. Moreover, revenue developments are projected to be more favourable in the Commission's 2021 spring forecast, in line with the more upbeat macroeconomic scenario in that forecast.

(13) In response to the COVID-19 pandemic and related economic downturn, Latvia has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Latvia in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government over the period 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's 2021 spring forecast, in 2023, the cumulative remaining impact of those non-temporary measures is preliminarily estimated at around 1 % of GDP, mainly consisting of public-sector wage increases, in particular for healthcare workers.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,1 % in 2021, 0,8 % in 2022 and 0,8 % in 2023. The 2021 Stability Programme assumes expenditure financed by the Recovery and Resilience Facility to be slightly back-loaded, with higher spending planned in 2024 and 2025. The Commission's 2021 spring forecast includes those grants in its budgetary projections.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary

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([5]) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

revenue measures and excluding crisis-related temporary emergency measures) including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Latvia's general government deficit is planned to decrease to 2,7 % of GDP in 2022, mainly due to a discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to increase to 50,3 % of GDP in 2022. These projections are above the Commission's 2021 spring forecast, mainly due to the more favourable macroeconomic scenario in that forecast. Based on the Commission's 2021 spring forecast and on the basis of the specific methodology that reflects the above mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,8 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,6 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,3 percentage point of GDP ([7]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 0,5 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience, and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 1,3 % in 2023, to 0,3 % of GDP in 2024. Based on the 2021 Stability Programme, the overall fiscal stance –including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility –is estimated at + 1,4 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,3 percentage point of GDP in 2023 and 2024 on average. Nationally financed investment is projected to provide a contractionary contribution of 0,1 percentage point of GDP ([8]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 1 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 4¾ % ([9]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Latvia's potential growth.

(20) The general government debt ratio is planned to decrease from 48,8 % of GDP in 2023 to 48,5 % of GDP in 2024. Latvia is considered to face low fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Latvia to the Council Recommendation of 20 July 2020,

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.
([7]) Other nationally financed capital expenditure is projected to provide a neutral contribution.
([8]) Other nationally financed capital expenditure is projected to provide a neutral contribution.
([9]) Estimated by the Commission in accordance with the commonly agreed methodology.

HEREBY RECOMMENDS LATVIA TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. Keep the growth of nationally financed current expenditure under control.
2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.
3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures, in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Lithuania

(2021/C 304/15)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Lithuania to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Lithuania to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6)
([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Lithuania and delivering a Council opinion on the 2020 Stability Programme of Lithuania (OJ C 282, 26.8.2020, p. 95).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Lithuania was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty. On 21 December 2020, Lithuania submitted an updated draft budgetary plan for 2021. The Commission was of the opinion that the updated draft budgetary plan of Lithuania was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the updated draft budgetary plan supported economic activity against the background of considerable uncertainty. However, some measures did not appear to be temporary or matched by offsetting measures.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission's also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 30 April 2021, Lithuania submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Lithuania's general government deficit was 7,4 % of gross domestic product (GDP), while general government debt increased to 47,3 % of GDP. The annual change in the primary budget balance amounted to - 8,0 % of GDP, including discretionary budgetary measures of 7,1 % of GDP in support of the economy and the operation of automatic stabilisers. Lithuania also provided liquidity support to companies

(4) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 2,7 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission at below ½ % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Lithuania, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled.

(11) The macroeconomic scenario underpinning the budgetary projections is cautious in 2021 and 2022. Real GDP is forecast to grow by 2,6 % in 2021 and 3,2 % in 2022. The macroeconomic scenario did not take into account investments to be funded by the Recovery and Resilience Facility. According to the Commission's 2021 spring forecast, real GDP is expected to grow by 2,9 % in 2021 and 3,9 % in 2022. The Commission GDP projections are higher mainly due to the assumption about a stronger recovery in domestic demand, including investments to be funded by the Recovery and Resilience Facility.

(12) In its 2021 Stability Programme, the government plans an increase in the general government deficit from 7,4 % of GDP in 2020 to 8,1 % of GDP in 2021, while the debt ratio is planned to increase to 52,1 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 8,9 % of GDP, reflecting the discretionary budgetary measures of 5,2 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast, which expects the general government deficit in 2021 to reach 8,2 %, while the debt-to-GDP ratio is set to reach 51,9 % of GDP.

(13) In response to the COVID-19 pandemic and related economic downturn, Lithuania has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Lithuania in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government over the period 2020 to 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's 2021 spring forecast, in 2023, the cumulative remaining impact of those non-temporary measures is preliminarily estimated at around 1 % of GDP, mainly consisting of increases in wages in the public sector, pensions and other benefits.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,3 % of GDP in 2021, 0,8 % in 2022, 1,0 % in 2023 and 0,9 % in 2024. The Commission's 2021 spring forecast includes these grants in its budgetary projections.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain

(5) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Lithuania's general government deficit is planned to decrease to 6,0 % of GDP in 2022, mainly due to the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to increase to 54,2 % of GDP in 2022. These projections are in line with the Commission's 2021 spring forecast, which expects the general government deficit at 6,0 %, while the debt-to-GDP ratio is set to reach 54,1 % of GDP. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 2,0 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,5 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,3 percentage point of GDP. ([7]) Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 1,8 percentage points of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 4,0 % in 2023 to 2,2 % of GDP in 2024. The general government deficit is thus planned to no longer exceed the 3 %-of–GDP Treaty reference value in 2024. Based on the 2021 Stability Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at + 2,1 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,1 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,1 percentage point of GDP. ([8]) Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 1,9 percentage points of GDP. The current estimate of the 10-year average nominal potential growth is 5¼ %. ([9]) However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Lithuania's potential growth.

(20) The general government debt ratio is planned to remain at 57,9 % of GDP in 2023 and 2024. Over the medium term, Lithuania is considered to face medium fiscal sustainability risks.

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.
([7]) Other nationally financed capital expenditure is projected to provide a neutral contribution.
([8]) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,1 percentage point of GDP.
([9]) Estimated by the Commission in accordance with the commonly agreed methodology.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative and include some differentiated quantified elements as part of the medium-term guidance. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Lithuania to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS LITHUANIA TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. Keep the growth of nationally financed current expenditure under control.
2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.
3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Luxembourg

(2021/C 304/16)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Luxembourg to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Luxembourg to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).
([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Luxembourg and delivering a Council opinion on the 2020 Stability Programme of Luxembourg (OJ C 282, 26.8.2020, p. 101).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Luxembourg was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 30 April 2021, Luxembourg submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Luxembourg's general government deficit was 4,1 % of gross domestic product (GDP), while general government debt increased to 24,9 % of GDP. The annual change in the primary budget balance amounted to - 6,6 % of GDP, including discretionary budgetary measures of 3,6 % of GDP in support of the economy and the operation of automatic stabilisers. Luxembourg also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact), estimated at 5,7 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission at below ½ % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Luxembourg, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled.

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[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and favourable in 2022. The 2021 Stability Programme projects real GDP to grow by 4,0 % in 2021 compared to 4,5 % according to the Commission's spring 2021 forecast, which factors in a stronger contribution to growth from domestic demand and net exports. For 2022, real GDP is expected to grow by 4,0 % in the 2021 Stability Programme on the back of stronger increase in the net export contribution than in the Commission's 2021 spring forecast of 3,3 %.

(12) In its 2021 Stability Programme, the government plans a decrease in the general government deficit from 4,1 % of GDP in 2020 to 2,0 % of GDP in 2021, while the debt ratio is planned to increase to 26,8 % of GDP. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 4,3 % of GDP, reflecting discretionary budgetary measures of 0,6 % of GDP in support of the economy and the operation of automatic stabilisers. The Commission's 2021 spring forecast projects a similar debt ratio in 2021 but a larger improvement of the deficit, to 0,3 % of GDP, mostly related to a larger decrease in public expenditure.

(13) In response to the COVID-19 pandemic and related economic downturn, Luxembourg has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Luxembourg in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

(14) The 2021 Stability Programme does not include yet receipts of grants under the Recovery and Resilience Facility. Instead, the Commission's 2021 spring forecast assumes, in the absence of sufficiently detailed information about the national recovery and resilience plan, a simplified and linear integration of expenditure financed by the Recovery and Resilience Facility, amounting to around 0,03 % of GDP per year.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by

[5] In particular, the 4-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Luxembourg's general government deficit is planned to decrease to 1,3 % of GDP in 2022, mainly due to higher government revenues and a decrease in social expenditure on the back of the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to increase to 28,0 % of GDP in 2022. The Commission's 2021 spring forecast projects lower deficit (0,1 %) and debt ratios (26,8 %). Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the abovementioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,2 % of GDP [6]. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to remain unchanged. Nationally financed investment is projected to provide a contractionary contribution of 0,1 percentage point of GDP [7]. Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 0,4 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow improving the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 0,4 % of GDP in 2023 to 0,0 % of GDP in 2024 and to turn to a surplus of 0,4 % of GDP in 2025. The 2021 Stability Programme does not include the information required to estimate the overall fiscal stance in 2023 and 2024. The current estimate of the 10-year average nominal potential growth is 5 % [8]. However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Luxembourg's potential growth.

(20) The general government debt ratio is planned to decrease from 28,4 % of GDP in 2023 to 28,2 % of GDP in 2024. Luxembourg is considered to face low fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Luxembourg to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS LUXEMBOURG TO:

1. In 2022, pursue a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

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[6] A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

[7] Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,2 percentage point of GDP.

[8] Estimated by the Commission, in accordance with the commonly agreed methodology.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Convergence Programme of Hungary

(2021/C 304/17)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 [2], facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation [3] ('the Council Recommendation of 20 July 2020'). It recommended Hungary to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Hungary to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(1) OJ L 209, 2.8.1997, p. 1.
(2) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6)
(3) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Hungary and delivering a Council opinion on the 2020 Convergence Programme of Hungary (OJ C 282, 26.8.2020, p. 107).
(4) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(4) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(5) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(6) On 30 April 2021, Hungary submitted its 2021 Convergence Programme, in line with Article 8 of Regulation (EC) No 1466/97.

(7) In 2020, based on data validated by Eurostat, Hungary's general government deficit was 8,1 % of gross domestic product (GDP), while general government debt increased to 80,4 % of GDP. The annual change in the primary budget balance amounted to - 5,9 % of GDP, including discretionary budgetary measures of 6,3 % of GDP in support of the economy and the operation of automatic stabilisers. Hungary also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at around 6,8 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be roughly equivalent to ½ % of GDP.

(8) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Hungary, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value and did not diminish at a satisfactory pace. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

(9) The macroeconomic scenario underpinning the budgetary projections is cautious in 2021 and 2022. The 2021 Convergence Programme projects real GDP growth of 4,3 % in 2021 and 5,2 % in 2022, a less robust recovery than that projected in the Commission's 2021 spring forecast, mainly due to the slower-than-expected revival of exports and private consumption. The 2021 Convergence Programme projections for the growth rate of nominal GDP and the main tax bases, including the compensation of employees and private consumption, are slightly lower than those in the Commission's 2021 spring forecast in 2021 and broadly similar in 2022.

(10) In its 2021 Convergence Programme, the government plans a decrease in the general government deficit from 8,1 % of GDP in 2020 to 7,5 % of GDP in 2021, while the debt ratio is planned to decrease to 79,9 % of GDP in 2021. According to the 2021 Convergence Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 5,1 % of GDP, reflecting discretionary budgetary measures of 3,0 % of GDP in support of the economy and the operation of automatic stabilisers. The Commission's 2021 spring forecast projects a lower deficit ratio (6,8 %) and a lower debt ratio (78,6 %) in 2021, reflecting stronger economic and tax revenue growth.

(11) In response to the COVID-19 pandemic and related economic downturn, Hungary has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Hungary in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government over the period 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's 2021 spring forecast, in 2023, the cumulative remaining impact of those non-temporary measures is preliminarily estimated at around 2 % of GDP, mainly consisting of wage increases for health care workers, a gradual re-introduction of the 13th monthly pension and the personal income tax exemption for employees under the age of 25.

(12) The 2021 Convergence Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,9 % of GDP in 2021, 0,9 % of GDP in 2022, 1,0 % of GDP in 2023, 0,6 % of GDP in 2024 and 0,4 % of GDP in 2025. The Commission's 2021 spring forecast does not fully include these grants in its budgetary projections, due to the absence of sufficiently detailed information about the national recovery and resilience plan at the time of the cut-off date. Instead, the Commission's 2021 spring forecast assumes a linear absorption of the full grant allocation over the Recovery and Resilience Facility's lifetime, starting from the second half of 2021 and ending in 2026. Thus, investment and reforms financed by grants under the Recovery and Resilience Facility amount to 0,4 % of GDP in 2021 and 0,8 % in 2022 in the Commission's 2021 spring forecast.

(13) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted ([5]) and complemented with additional information in order to fully gauge the fiscal policy orientation.

(14) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(15) In its 2021 Convergence Programme, Hungary's general government deficit is planned to decrease to 5,9 % of GDP in 2022, mainly driven by the economic recovery. The general government debt ratio is planned to decrease to 79,3 % of GDP. The Commission's 2021 spring forecast projects a lower deficit ratio (4,5 %) and a lower debt ratio (77,1 %), owing to the stronger economic and tax revenue growth as well as to the lower deficit base in 2021. Based

([5]) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

on the Commision's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at + 0,7 % of GDP [6]. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,2 percentage point of GDP. Nationally financed investment is projected to provide an expansionary contribution of 0,1 percentage point of GDP [7]. Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 1,0 percentage point of GDP.

(16) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(17) According to the 2021 Convergence Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 3,9 % in 2023, to 3,0 % of GDP in 2024 and to 2,0 % of GDP in 2025. The general government deficit is thus planned to no longer exceed the 3 %-of-GDP Treaty reference value in 2024. Based on the 2021 Convergence Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at + 0,3 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,4 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,3 percentage point of GDP [8]. Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 0,6 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 6¾ % [9]. However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Hungary's potential growth.

(18) The general government debt ratio is planned to decrease from 77,5 % of GDP in 2023, to 75,7 % of GDP in 2024 and to 73,1 % of GDP in 2025. Hungary is considered to face medium fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(19) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(20) The Council has assessed the 2021 Convergence Programme and the follow-up by Hungary to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS HUNGARY TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

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(6) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.
(7) Other nationally financed capital expenditure is projected to provide a neutral contribution.
(8) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,2 percentage point of GDP.
(9) Estimated by the Commission, in accordance with the commonly agreed methodology.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the national budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Malta

(2021/C 304/18)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 [2], facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation [3] ('the Council Recommendation of 20 July 2020'). It recommended Malta to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Malta to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

(1) OJ L 209, 2.8.1997, p. 1.
(2) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).
(3) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Malta and delivering a Council opinion on the 2020 Stability Programme of Malta (OJ C 282, 26.8.2020, p. 116).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Malta was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 30 April 2021, Malta submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Malta's general government deficit was 10,1 % of gross domestic product (GDP), while general government debt increased to 54,3 % of GDP. The annual deterioration in the primary budget balance amounted to 10,6 % of GDP, including discretionary budgetary measures of 5,7 % of GDP in support of the economy and the operation of automatic stabilisers. Malta also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 3,9 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be 1 % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Malta, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled.

([4]) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The macroeconomic scenario underpinning the budgetary projections is cautious in 2021 and favourable in 2022. The 2021 Stability Programme projects real GDP to increase by 3,8 % in 2021 and accelerate to 6,8 % in 2022. Growth would be driven exclusively by domestic demand in 2021, while in 2022 a positive contribution would come also from the external sector. The Commission's 2021 spring forecast assumes a smoother growth trajectory, with GDP projected to grow by 4,6 % and 6,1 % in 2021 and 2022, respectively. A more optimistic outlook for private and public consumption in 2021 and more subdued investment growth in 2022 explain the major part of the different profile in the Commission's growth forecast.

(12) In its 2021 Stability Programme, the government plans an increase in the general government deficit from 10,1 % of GDP in 2020 to 12,0 % of GDP in 2021, while the debt ratio is planned to increase to 65,0 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to 12,5 % of GDP, reflecting discretionary budgetary measures of 5,6 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast.

(13) In response to the COVID-19 pandemic and related economic downturn, Malta has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt . Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Malta in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,3 % of GDP in 2021, 0,8 % in 2022, 0,6 % in 2023, 0,3 % in 2024 and 0,1 % in 2025. The Commission's 2021 spring forecast does not fully include these grants in its budgetary projections, due to the absence of sufficiently detailed information about the national recovery and resilience plan at the time of the cut-off date. Instead, the Commission's 2021 spring forecast assumes a simplified and linear integration of expenditure financed by the Recovery and Resilience Facility.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures) including expenditure financed by

[5] In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Malta's general government deficit is planned to decrease to 5,6 % of GDP in 2022, mainly due to the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to increase to 65,8 % of GDP. These projections are in line with the Commission's 2021 spring forecast. Based on the Commision's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 2,1 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by of 0,1 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,2 percentage point of GDP. ([7]) Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,8 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 3,9 % of GDP in 2023 to 2,9 % of GDP in 2024. The general government deficit is planned to no longer exceed the 3 %-of-GDP Treaty reference value in 2024. Based on the 2021 Stability Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 1,3 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,2 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,2 percentage point of GDP ([8]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,4 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 5½ % ([9]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Malta's potential growth.

(20) The general government debt ratio is planned to decrease from 66 % of GDP in 2023 to 65,6 % of GDP in 2024. Malta is considered to face medium fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Malta to the Council Recommendation of 20 July 2020,

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([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.
([7]) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 1,1 percentage points of GDP.
([8]) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,5 percentage point of GDP.
([9]) Estimated by the Commission, in accordance with the commonly agreed methodology.

HEREBY RECOMMENDS MALTA TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the national budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of the Netherlands

(2021/C 304/19)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended the Netherlands to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended the Netherlands to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

(1) OJ L 209, 2.8.1997, p. 1.
(2) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).
(3) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of the Netherlands and delivering a Council opinion on the 2020 Stability Programme of the Netherlands (OJ C 282, 26.8.2020, p. 122).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of the Netherlands was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty. However, some measures did not appear to be temporary or matched by offsetting measures.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 30 April 2021, the Netherlands submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat the Netherlands' general government deficit was 4,3 % of gross domestic product (GDP), while general government debt increased to 54,5 % of GDP. The annual change in the primary budget balance amounted to 6,0 % of GDP, including discretionary budgetary measures of 3,0 % in support of the economy and the operation of automatic stabilisers. The Netherlands also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 5,3 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be roughly equivalent to 2 % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of the Netherlands, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled.

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(4) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and 2022 and in line with the Commission's 2021 spring forecast. The Commission's 2021 spring forecast shows a stronger growth in private consumption both in 2021 and 2022 (0,5 percentage point stronger in 2021 and 0,4 percentage point stronger in 2022) and a stronger growth in gross fixed capital formation in 2022 (0,3 percentage point stronger). This is offset by a stronger growth in imports in the Commission's 2021 spring forecast, leading to positive net imports, while the 2021 Stability Programme projects negative net imports.

(12) In its 2021 Stability Programme, the government plans an increase in the general government deficit from 4,3 % of GDP in 2020 to 5,9 % of GDP in 2021, while the debt ratio is planned to increase to 58,6 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to 8,2 % of GDP, reflecting the discretionary budgetary measures of 1,9 % of GDP in support of the economy and the operation of automatic stabilisers. In its 2021 spring forecast, the Commission forecasts an increase of the general government deficit to 5,0 % of GDP in 2021, while the debt ratio is planned to increase to 57,9 % of GDP in 2021. The Commission's 2021 spring forecast is based on outturn data showing more robust revenues in 2020, which are expected to remain similar in 2021. The smaller estimated deficit leads to smaller debt levels.

(13) In response to the COVID-19 pandemic and related economic downturn, the Netherlands has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by the Netherlands in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government over the period 2020 to 2021, do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's 2021 spring forecast, in 2023, the cumulative remaining impact of those non-temporary measures is preliminarily estimated at around 1 % of GDP, all of them capital transfers, mostly from the National Growth Investment Fund.

(14) The 2021 Stability Programme does not include yet receipts of grants under the Recovery and Resilience Facility. The Commission's 2021 spring forecast assumed a simplified and linear integration of expenditure financed by the Recovery and Resilience Facility, in the absence of sufficiently detailed information about the national recovery and resilience plan.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary

[5] In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, the Netherlands' general government deficit is planned to decrease to 1,8 % of GDP in 2022, mainly due to the economic recovery and a discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to decrease to 56,9 % of GDP in 2022. These projections are in line with the Commission's 2021 spring forecast. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance –including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,4 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,1 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,2 percentage point of GDP ([7]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 0,2 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 1,4 % in 2023, to 1,1 % of GDP in 2024. The general government deficit is planned to return below 3 % of GDP in 2022. The 2021 Stability Programme does not include the information required to estimate the overall fiscal stance in 2023 and 2024. The current estimate of the 10-year average nominal potential growth is 3 % ([8]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost the Netherland's potential growth.

(20) The general government debt ratio is planned to decrease from 56,0 % of GDP in 2023 to 55,3 % of GDP in 2024. The Netherlands is considered to face low fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by the Netherlands to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS THE NETHERLANDS TO:

1. In 2022, pursue a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

([7]) Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,3 percentage point of GDP.

([8]) Estimated by the Commission, in accordance with the commonly agreed methodology.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Austria

(2021/C 304/20)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Austria to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Austria to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).
([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Austria and delivering a Council opinion on the 2020 Stability Programme of Austria (OJ C 282, 26.8.2020, p. 129).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Austria was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 28 April 2021, Austria submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Austria's general government deficit was 8,9 % of gross domestic product (GDP), while general government debt increased to 83,9 % of GDP. The annual change in the primary budget balance amounted to - 9,6 % of GDP, including discretionary budgetary measures of 6,8 % of GDP in support of the economy and the operation of automatic stabilisers. Austria also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 3,5 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be roughly equivalent to 2 % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Austria, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value and did not diminish at a satisfactory pace. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

(4) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The macroeconomic scenario underpinning the budgetary projections is cautious in 2021 and 2022. The 2021 Stability Programme projects the real GDP to grow moderately by 1,5 % in 2021 and to rebound strongly by 4,7 % in 2022. This compares to real growth of 3,4 % in 2021 and 4,3 % in 2022 in the Commission's 2021 spring forecast. The difference between the two projections is mainly due to their different cut-off dates, which allowed the Commission's projections to take into account the better-than-expected flash estimate for first-quarter GDP, published in late April 2021. Additionally, the Commission's projections take into account the easing of restrictions that took place in April 2021 in parts of the country and the government announcement of a substantial easing of containment measures as of mid-May 2021.

(12) In its 2021 Stability Programme, the government plans a decrease in the general government deficit from 8,9 % of GDP in 2020 to 8,4 % of GDP in 2021, while the debt ratio is planned to increase to 89,6 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 9,2 % of GDP, reflecting the discretionary budgetary measures of 5,8 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are comparatively less favourable than the Commission's 2021 spring forecast. Based on the Commission's 2021 spring forecast, the general government deficit is expected to improve to 7,6 % of GDP in 2021, while the debt ratio is projected to increase to 87,2 % of GDP in 2021. This is largely the result of the more favourable macroeconomic scenario in the Commission's 2021 spring forecast.

(13) In response to the COVID-19 pandemic and related economic downturn, Austria has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Austria in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government over the period 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's 2021 spring forecast, in 2023, the cumulative remaining impact of those non-temporary measures is preliminarily estimated at around 1 % of GDP, mainly consisting of investment premia, the introduction of declining balance depreciation and a personal income tax relief as well as capital transfers. Those non-temporary measures also include investment of approximately $^{1}/_{10}$ % of GDP, which is expected to support medium-term potential growth, and thus sustainability.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,02 % of GDP in 2020, 0,1 % in 2021, 0,3 % in 2022, 0,3 % in 2023 and 0,2 % of GDP in 2024. The Commission's spring forecast fully includes these grants in its budgetary projections.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary

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[5] In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

revenue measures and excluding crisis-related temporary emergency measures) including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Austria's general government deficit is planned to decrease to 4,3 % of GDP in 2022, mainly due to the projected strong economic growth of 4,7 % in real terms, the expected recovery on the labour market and strong private consumption. The general government debt ratio is planned to decrease to 88,1 % of GDP in 2022. These projections are comparatively less favourable than the Commission's 2021 spring forecast. Based on the Commission's 2021 spring forecast, the general government deficit is expected to improve to 3,0 % of GDP in 2022, while the debt ratio is projected to decrease to 85,0 % of GDP in 2022. This is largely the result of a different underlying macroeconomic scenario. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated to be neutral (at 0,0 % of GDP) ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,1 percentage point of GDP. Nationally financed investment is projected to provide a neutral contribution ([7]). Nationally financed primary current expenditure (net of discretionary revenue measures) is also projected to provide a neutral contribution.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 3,0 % in 2023 to 2,5 % of GDP in 2024. The general government deficit is thus planned to no longer exceed 3 % of GDP in 2023. Based on the 2021 Stability Programme, the overall fiscal stance –including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 0,6 % of GDP in 2023 and 2024 on average. The positive contribution from expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,1 percentage point of GDP. Nationally financed investment is projected to provide a neutral contribution ([8]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,4 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 3 % ([9]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Austria's potential growth.

(20) The general government debt ratio is planned to decrease from 88,1 % of GDP in 2023 to 87,6 % of GDP in 2024. Over the medium term, Austria is considered to face medium fiscal sustainability risks.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

([7]) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,1 percentage point of GDP.

([8]) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,1 percentage point of GDP.

([9]) Estimated by the Commission in accordance with the commonly agreed methodology.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Austria to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS AUSTRIA TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.
2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.
3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Convergence Programme of Poland

(2021/C 304/21)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 [2], facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation [3] ('the Council Recommendation of 20 July 2020'). It recommended Poland to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Poland to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

([1]) OJ L 209, 2.8.1997, p. 1.

([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Poland and delivering a Council opinion on the 2020 Convergence Programme of Poland (OJ C 282, 26.8.2020, p. 135).

([4]) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(4) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(5) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(6) On 30 April 2021, Poland submitted its 2021 Convergence Programme, in line with Article 8 of Regulation (EC) No 1466/97.

(7) In 2020, based on data validated by Eurostat, Poland's general government deficit was 7,0 % of gross domestic product (GDP), while general government debt increased to 57,5 % of GDP. The annual change in the primary budget balance amounted to - 6,4 % of GDP, including discretionary budgetary measures of 4,3 % of GDP in support of the economy and the operation of automatic stabilisers. The change in the debt-to-GDP ratio was driven also by the issuance of bonds by the Polish Development Fund (4,3 % of GDP) in the context of the policy to counteract the crisis caused by the COVID-19 pandemic, part of which has already been included in the 2020 general government deficit. Poland also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 10,5 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission at below ½ % of GDP.

(8) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Poland, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled.

(9) The macroeconomic scenario underpinning the budgetary projections is overall cautious, particularly for 2022. The 2021 Convergence Programme projects real GDP growth of 3,8 % in 2021 and 4,3 % in 2022, a less robust recovery than the Commission's 2021 spring forecast by 0,2 percentage point in 2021 and by 1,1 percentage points in 2022. This is primarily driven by the fact that the central scenario provided in the 2021 Convergence Programme does not include the impact of the Recovery and Resilience Facility on the Polish economy.

(10) In its 2021 Convergence Programme, the government plans a decrease in the general government deficit from 7,0 % of GDP in 2020 to 6,9 % of GDP in 2021, while the debt ratio is planned to increase to 60,0 % of GDP in 2021. According to the 2021 Convergence Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 6,4 % of GDP, reflecting the discretionary budgetary measures of 2,5 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are above the Commission's 2021 spring forecast. The difference is driven primarily by higher spending, including on the measures to contain the COVID-19 pandemic, planned in the 2021 Convergence Programme.

(11) In response to the COVID-19 pandemic and related economic downturn, Poland has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Poland in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are temporary or matched by offsetting measures.

(12) The 2021 Convergence Programme does not yet include receipts of grants under the Recovery and Resilience Facility.

(13) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted ([5]) and complemented with additional information in order to fully gauge the fiscal policy orientation.

(14) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(15) In its 2021 Convergence Programme, Poland's general government deficit is planned to decrease to 4,2 % of GDP in 2022, mainly due to the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to decrease to 59,2 % of GDP in 2022. These projections are above the Commission's 2021 spring forecast and result from an assumption of higher spending on, inter alia, intermediate consumption and social transfers, including on the measures to contain the COVID-19 pandemic. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at + 0,1 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,1 percentage point of GDP. Nationally financed investment is projected to provide an expansionary contribution of 0,3 percentage point of GDP ([7]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,2 percentage point of GDP.

([5]) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

([7]) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,2 percentage point of GDP.

(16) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(17) According to the 2021 Convergence Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 3,2 % in 2023 to 2,5 % of GDP in 2024. The general government deficit is thus planned to no longer exceed the 3 %-of-GDP Treaty reference value in 2024. The 2021 Convergence Programme does not include the information required to estimate the overall fiscal stance in 2023 and 2024. The current estimate of the 10-year average nominal potential growth is 5¾ % ([8]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Poland's potential growth.

(18) The general government debt ratio is planned to decrease from 58,7 % of GDP in 2023 to 57,9 % of GDP in 2024. Poland is considered to face low fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(19) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(20) The Council has assessed the 2021 Convergence Programme and the follow-up by Poland to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS POLAND TO:

1. In 2022, pursue a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

([8]) Estimated by the Commission in accordance with the commonly agreed methodology.

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Portugal

(2021/C 304/22)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 [2], facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation [3] ('the Council Recommendation of 20 July 2020'). It recommended Portugal to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Portugal to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

[1] OJ L 209, 2.8.1997, p. 1.

[2] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

[3] Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Portugal and delivering a Council Opinion on the 2020 Stability Programme of Portugal (OJ C 282, 26.8.2020, p. 142).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Portugal was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth, and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 30 April 2021, Portugal submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Portugal's general government deficit was 5,7 % of gross domestic product (GDP), while general government debt increased to 133,6 % of GDP. The annual change in the primary budget balance amounted to - 6 % of GDP, including discretionary budgetary measures of about 3 % of GDP in support of the economy and the operation of automatic stabilisers. Portugal also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at close to 4 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be roughly equivalent to 3½ % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Portugal, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value and did not diminish at a satisfactory pace. The report concluded that the deficit criterion was not fulfilled, and the debt criterion was not complied with.

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[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and 2022. According to the 2021 Stability Programme, real GDP is projected to expand by 4 % in 2021 and 4,9 % in 2022. This is in line with the Commission's 2021 spring forecast. Contact-intensive sectors were hit particularly hard by the COVID-19 crisis. Risks to the macroeconomic outlook remain tilted to the downside, due to Portugal's high reliance on foreign tourism, for which there is still a high level of uncertainty as regards the path to recovery.

(12) In its 2021 Stability Programme, the government plans a decrease in the general government deficit from 5,7 % of GDP in 2020 to 4,5 % of GDP in 2021, while the debt ratio is planned to decrease to 128 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 5 % of GDP, reflecting discretionary budgetary measures of about 3 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast.

(13) In response to the COVID-19 pandemic and related economic downturn, Portugal has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Portugal in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government over the period 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's 2021 spring forecast, in 2023, the cumulative remaining impact of those non-temporary measures is preliminarily estimated at around 1 % of GDP, mainly consisting of additional spending on public wages. Those non-temporary measures also include investment of approximately $^{1}/_{10}$ % of GDP, which is expected to support medium-term potential growth and thus sustainability.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,3 % of GDP in 2021, 1,3 % of GDP in 2022, 1,5 % of GDP in 2023, 1,3 % of GDP in 2024, and 1,1 % of GDP in 2025. The 2021 Stability Programme also assumes loans under the Recovery and Resilience Facility amounting to 0,7 % of GDP in 2021, 0,2 % of GDP in 2022, and 0,1 % of GDP every year in the period 2023–-2025. The Commission's 2021 spring forecast includes these grants in its budgetary projections.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure

[5] In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures) including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Portugal's general government deficit is planned to decrease to 3,2 % of GDP in 2022, mainly due to the discontinuation of the temporary support measures adopted in 2020 and 2021, as well as to the expected economic rebound. The general government debt ratio is planned to decrease to 123 % of GDP in 2022. These projections are in line with the Commission 2021 spring forecast. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 1,1 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,1 percentage point of GDP. Nationally financed investment is projected to provide an expansionary contribution of 0,2 percentage point of GDP ([7]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 0,7 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 2,2 % of GDP in 2023 to 1,6 % of GDP in 2024. The general government deficit is thus planned to no longer exceed the 3 %-of-GDP Treaty reference value in 2023. Based on the 2021 Stability Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 0,3 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to remain unchanged. Nationally financed investment is projected to provide an expansionary contribution of 0,1 percentage point of GDP ([8]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,3 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 3 % ([9]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Portugal's potential growth.

(20) The general government debt ratio is planned to decrease from 120,7 % of GDP in 2023 to 117,1 % of GDP in 2024. In light of the high debt ratio, which is projected to gradually fall over time, Portugal is considered to face high fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

([7]) Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,1 percentage point of GDP.

([8]) Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,2 percentage point of GDP.

([9]) Estimated by the Commission, in accordance with the commonly agreed methodology.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Portugal to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS PORTUGAL TO:

1. In 2022, use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Preserve nationally financed investment. Limit the growth of nationally financed current expenditure.
2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.
3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the national budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Convergence Programme of Romania

(2021/C 304/23)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 3 April 2020, the Council adopted Decision (EU) 2020/509 ([3]) on the existence of an excessive deficit situation in Romania due to non-compliance with the deficit criterion in 2019. This was based on the updated fiscal targets by the government, while the subsequent publication of the general government deficit outturn of 4,3 % of GDP confirmed the breach. The excess over the 3 %-of-GDP Treaty reference value was the result of a continuous build-up of fiscal imbalances due to an expansionary fiscal policy since 2016, in a period of strong economic growth. On 3 April 2020, the Council also issued a Recommendation ([4]) with a view to bringing an end to the situation of an excessive government deficit in Romania by 2022 at the latest.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).
([3]) Council Decision (EU) 2020/509 of 3 April 2020 on the existence of an excessive deficit in Romania (OJ L 110, 8.4.2020, p. 58).
([4]) Council Recommendation of 3 April 2020 with a view to bringing an end to the situation of an excessive government deficit in Romania (OJ C 116, 8.4.2020, p. 1).

(3) On 20 July 2020, the Council adopted a Recommendation [5] ('the Council Recommendation of 20 July 2020'). It recommended Romania to pursue fiscal policies in line with the Council Recommendation of 3 April 2020, while taking all necessary measures to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery.

(4) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [6], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(5) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. That communication also stated the Commission's view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(6) On 5 May 2021, Romania submitted its 2021 Convergence Programme, beyond the deadline established in Article 8 of Regulation (EC) No 1466/97.

(7) In 2020, based on data validated by Eurostat, Romania's general government deficit was 9,2 % of gross domestic product (GDP), while general government debt increased to 47,3 % of GDP. The annual change in the primary budget balance amounted to - 3,6 % of GDP, including discretionary budgetary measures of 1,5 % in support of the economy and the operation of automatic stabilisers. Romania also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 4 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be roughly equivalent to 1½ % of GDP.

(8) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and 2022. According to the 2021 Convergence Programme, real GDP growth is projected at 5,0 % in 2021 and 4,8 % in 2022. In both years, domestic demand, with strong consumption and investment growth, is expected to be the main driver. The Commission's 2021 spring forecast of Romania's growth is slightly above that of the 2021 Convergence Programme, with 5,1 % in 2021 and 4,9 % in 2022, also driven by domestic demand.

(9) In its 2021 Convergence Programme, the government plans a decrease in the general government deficit from 9,2 % of GDP in 2020 to 8 % of GDP in 2021, while the debt ratio is planned to increase to 50,8 % of GDP in 2021. According to the 2021 Convergence Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to 3,3 % of GDP, reflecting the discretionary budgetary measures of 1,5 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast.

(10) In response to the COVID-19 pandemic and related economic downturn, Romania has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. The measures taken by Romania in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary measures adopted by the government in 2020 and 2021 are temporary or matched by offsetting measures. At the same time, there has been a continuous fiscal impact of expansionary measures which were adopted before the COVID-19 pandemic. Those measures notably included increases in pensions and other social expenditure and tax cuts.

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[5] Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Romania and delivering a Council opinion on the 2020 Convergence Programme of Romania (OJ C 282, 26.8.2020, p. 149).

[6] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The 2021 Convergence Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,1 % of GDP in 2021, 0,6 % of GDP in 2022, 1,2 % of GDP in 2023, 1,2 % of GDP in 2024, 0,9 % of GDP in 2025 and 0,9 % of GDP in 2026. The 2021 Convergence Programme also assumes loans under the Recovery and Resilience Facility amounting to 2,3 % of GDP in 2025 and 2,5 % of GDP in 2026. The Commission's 2021 spring forecast includes only the grants in its budgetary projections as the loans are assumed in the 2021 Convergence Programme to start after the Commission's 2021 spring forecast horizon.

(12) To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures) including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(13) In its 2021 Convergence Programme, Romania's general government deficit is planned to decrease to 6,2 % of GDP in 2022, mainly due to the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to increase to 52,9 % of GDP in 2022. These projections are more favourable than the Commission's 2021 spring forecast. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,5 % of GDP ([7]). The positive contribution of the expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,4 percentage point of GDP. Nationally financed investment is projected to provide an expansionary contribution of 0,1 percentage point of GDP ([8]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a neutral contribution.

(14) According to the 2021 Convergence Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 4,4 % in 2023, to 2,9 % of GDP in 2024. The general government deficit is planned to no longer exceed the 3 %-of-GDP Treaty reference value in 2024. Based on the 2021 Convergence Programme, the overall fiscal stance — also including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 0,6 % of GDP in 2023 and 2024 on average. The positive contribution of the expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,2 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,1 percentage point of GDP ([9]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,8 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 5¾ % ([10]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Romania's potential growth.

(15) The general government debt ratio is planned to increase to 53,3 % of GDP in 2023 and decrease to 52,4 % of GDP in 2024. In light of the particularly fast-increasing debt path in the medium term, mainly due to the large deficit forecasted for 2022 and unfavourable financing conditions compared with other Member States, Romania is considered to face high fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(16) On 2 June 2021, the Commission recommended a Council recommendation for the correction of Romania's excessive deficit by 2024. According to that recommendation, Romania should reach a headline general government deficit target of 8,0 % of GDP in 2021, 6,2 % of GDP in 2022, 4,4 % of GDP in 2023, and 2,9 % of GDP in 2024, which is consistent with a nominal growth rate of net primary government expenditure of 3,4 % in 2021, 1,3 % in 2022, 0,9 % in 2023 and 0,0 % in 2024. This corresponds to an annual structural adjustment of 0,7 % of GDP in 2021, 1,8 % of GDP in 2022, 1,7 % of GDP in 2023 and 1,5 % of GDP in 2024.

([7]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.
([8]) Other nationally financed capital expenditure is projected to provide a neutral contribution.
([9]) Other nationally financed capital expenditure is projected to provide a neutral contribution.
([10]) Estimated by the Commission, in accordance with the commonly agreed methodology.

(17) The Council has assessed the 2021 Convergence Programme and the follow-up by Romania to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS ROMANIA TO:

1. Pursue fiscal policies in line with the Council Recommendation of 18 June 2021 with a view to bringing an end to the situation of an excessive government deficit in Romania [11].

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

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[11] See page XX of this Official Journal.

COUNCIL RECOMMENDATION

of 18 June 2021

with a view to bringing an end to the situation of an excessive government deficit in Romania

(2021/C 304/24)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(7) thereof,

Having regard to the recommendation from the European Commission,

Whereas:

(1) According to Article 126 of the Treaty on the Functioning of the European Union, Member States are to avoid excessive government deficits.

(2) The Stability and Growth Pact (SGP) is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.

(3) Following a recommendation from the Commission, on 3 April 2020 the Council decided, by Decision (EU) 2020/509 ([1]), in accordance with Article 126(6) of the Treaty, that an excessive deficit existed in Romania and issued a recommendation to correct the excessive deficit by 2022 at the latest ([2]) (the 'Council Recommendation of 3 April 2020'), in accordance with Article 126(7) of the Treaty and Article 3 of Council Regulation (EC) No 1467/97 ([3]).

(4) On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the SGP. That clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Council Regulation (EC) No 1466/97 ([4]) and Articles 3(5) and 5(2) of Regulation (EC) No 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In that Communication, the Commission set out its view that, given the severe economic downturn resulting from the COVID-19 pandemic, the conditions to activate the general escape clause of the SGP were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the Commission's assessment.

(5) On 15 September 2020, Romania submitted its report on action taken in response to the Council Recommendation of 3 April 2020. That report pointed to a major deterioration of its public finances during 2020, mainly due to the COVID-19 pandemic.

(6) On 18 November 2020, the Commission adopted a Communication on Romania's fiscal situation. In light of the continued exceptional uncertainty created by the COVID-19 pandemic and its extraordinary macroeconomic and fiscal impact, the Commission considered that no decision on further steps in the excessive deficit procedure initiated for Romania could be taken at that juncture. In particular, the exceptional uncertainty, including as regards designing a credible path for fiscal policy, did not allow the Commission to put forward a recommendation for a Council recommendation under Article 126(7) of the Treaty at that stage. The Commission stated that it would

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([1]) Council Decision (EU) 2020/509 of 3 April 2020 on the existence of an excessive deficit in Romania (OJ L 110, 8.4.2020, p. 58).
([2]) Council Recommendation of 3 April 2020 with a view to bringing an end to the situation of an excessive government deficit in Romania (OJ C 116, 8.4.2020, p. 1).
([3]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).
([4]) Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209, 2.8.1997, p. 1).

reassess Romania's budgetary situation in spring 2021 based on the 2020 outturn data, the 2021 budget and the Commission 2021 spring economic forecast, and that, if appropriate, it would propose new steps under the excessive deficit procedure, taking into account the continued application of the general escape clause of the SGP in 2021.

(7) On 3 March 2021, the Commission adopted a Communication providing further policy orientation to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. In that Communication the Commission expressed its view that the decision on the deactivation or continued application of the general escape clause of the SGP should comprise an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end-2019) as the key quantitative criterion. On 2 June 2021 the Commission adopted a Communication entitled 'Economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy'. According to that Communication, the general escape clause of the SGP will continue to be applied in 2022 and is expected to be deactivated as of 2023.

(8) According to an update of the Commission's Debt Sustainability Monitor 2020 to reflect the Commission 2021 spring economic forecast, Romania's medium and long-term fiscal sustainability risks remain high. Those risks need to be addressed by an adequate medium-term fiscal plan backed by structural measures.

(9) In light of the deep contraction in economic activity linked to the COVID-19 pandemic and of the related need for fiscal policies to support the recovery in 2021 and 2022, the Council Recommendation of 3 April 2020 no longer provides a relevant basis for fiscal policy guidance for Romania.

(10) Pursuant to the last sentence of Article 3(5) of Regulation (EC) No 1467/97, in the case of a severe economic downturn in the euro area or in the Union as a whole the Council may decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) of the Treaty, provided that this does not endanger fiscal sustainability in the medium term.

(11) In accordance with Article 126(7) of the Treaty and Article 3 of Regulation (EC) No 1467/97, the Council is required to make a recommendation to the Member State concerned establishing a deadline for the correction of the excessive deficit. That recommendation is to establish a maximum deadline of six months for effective action to be taken by the Member State concerned to correct the excessive deficit, which can be reduced to three months when warranted by the seriousness of the situation. Furthermore, in a recommendation to correct an excessive deficit the Council is to request the achievement of annual budgetary targets which, on the basis of the forecast underpinning that recommendation, are consistent with a minimum annual improvement in the structural balance, meaning the cyclically-adjusted balance excluding one-off and other temporary measures, of at least 0,5 % of GDP as a benchmark.

(12) Real GDP in Romania contracted by 3,9 % in 2020. According to the Commission 2021 spring economic forecast, real GDP growth is forecast to rebound to 5,1 % in 2021 and 4,9 % in 2022. Private consumption is expected to recover as the vaccination roll-out progresses and social distancing measures are gradually lifted, while wage growth is also expected to remain robust. The phasing-in of projects under the Recovery and Resilience Plan (RRP), as referred to in Regulation (EU) 2021/241 of the European Parliament and of the Council [5], is set to lend new impetus to investment growth. The contribution of net exports, that is export minus imports, is expected to remain negative over the forecast horizon. This is because imports are expected to be spurred by the recovery of private consumption as well as by increasing investment. Exports are expected to be supported by a recovery in external demand but to remain less dynamic than imports. The growth outlook is subject to balanced risks. On the one hand, a credible medium-term fiscal strategy can help dispel concerns about fiscal sustainability, in particular when combined with ambitious reforms (including those contained in the RRP). This would help address Romania's macroeconomic imbalances, mitigate financial stability risks and contribute to sustainable growth, including by improving the investment climate. On the other hand, uncertainty with regard to public policy-making and delays or inefficiencies in the implementation of the RRP could result in negative confidence effects.

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[5] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(13) On 2 March 2021, the Romanian Parliament adopted Romania's budget and medium-term fiscal strategy for 2021. That fiscal strategy, together with information on the profile of non-repayable financial support and loans under the Recovery and Resilience Facility established by Regulation (EU) 2021/241 (the 'Facility'), has been taken into account in the 2021 Convergence Programme of Romania (the 'Convergence Programme'), which was submitted to the Commission on 5 May 2021. Starting with a general government deficit of 9,2 % of GDP in 2020, the Convergence Programme targets a general government deficit of below 3 % of GDP by 2024 in the following steps: 8,0 % of GDP in 2021, 6,2 % of GDP in 2022, 4,4 % of GDP in 2023 and 2,9 % of GDP in 2024. The fiscal adjustment set out in the Convergence Programme is mostly expenditure-based. Expenditure control (reduction as a percentage of GDP) is envisaged in particular for public sector wages (down by 1,4 percentage points between 2022 and 2024) and social transfers (down by 0,9 percentage points between 2022 and 2024).

(14) The Commission 2021 spring economic forecast, extended up to 2024, projects a general government deficit of 8,0 % of GDP in 2021, 7,1 % of GDP in 2022 and 6,8 % of GDP in 2023 and 2024. That forecast takes into account expenditure expected to be financed by non-repayable financial support and loans from the Facility, as presented in the Convergence Programme and in additional information provided by Romania. The decrease of the general headline government deficit projected by the Commission is mostly driven by the gradual expiry of emergency measures adopted in response to the COVID-19 pandemic, by higher revenues driven by the projected economic recovery, and by the additional positive impact of investment and reforms expected to be financed by the Facility. Moreover, the Romanian government has decided to freeze public sector wages in 2021 and 2022, to postpone pension increases in 2021 and to increase pensions moderately in 2022, measures which contribute to an improved outlook as compared to that in the Commission 2020 autumn economic forecast. Those measures have already been adopted. In addition, the Romanian government intends to adopt new pension legislation that would keep pension expenditure as a percentage of GDP broadly stable. The higher deficit projection in the Commission 2021 spring economic forecast, compared to the Convergence Programme, stems from the fact that the planned consolidation is not fully supported by enacted, or as yet credibly announced, measures and could therefore not be taken into account in that forecast. The structural deficit is projected by the Commission to improve by 0,7 percentage points of GDP in 2021 and by 0,5 percentage points of GDP in 2022 and to deteriorate by 0,1 percentage points of GDP in 2023 and by 0,4 percentage points of GDP in 2024.

(15) General government debt stood at 34,7 % of GDP at the end of 2018, at 35,3 % of GDP at the end of 2019 and at 47,3 % of GDP at the end of 2020. According to the Commission 2021 spring economic forecast, it is projected to increase to 49,7 % of GDP at the end of 2021, to 52,7 % of GDP at the end of 2022 and to 59,5 % of GDP at the end of 2024, thus approaching for the first time the reference value of 60 % of GDP set out in the Treaty in the absence of corrective measures additional to those already enacted or credibly announced.

(16) The analysis of medium to long-term debt sustainability, updated after the Commission 2021 spring economic forecast, confirms that risks to sustainability are high in the medium term. According to a baseline 10-year projection, the general government debt-to-GDP ratio would continue to increase over the projection period and reach a level close to 90 % of GDP. Risks to debt sustainability are driven by large fiscal deficits, costs of ageing, and vulnerability of the debt path to macro-fiscal shocks. Pension increases, adopted in summer 2019, and for the time being postponed until the end of 2022, are the predominant source of the debt sustainability risks. The debt structure, with a high share of foreign denominated debt and a significant share of debt held by non-residents, further adds to the debt sustainability risks, although interventions by the National Bank of Romania on the secondary market have helped keep government borrowing costs at favourable levels in 2020. Moreover, there are risks linked to contingent liabilities stemming from state guarantees (of 1,4 % of GDP) granted to firms and the self-employed during the COVID-19 crisis. Gross financing needs are projected to increase. Conversely, reforms and investment under Next Generation EU, if effectively implemented, are expected to have a positive impact on GDP growth in the coming years, thereby contributing to debt sustainability.

(17) Under Article 3(4) of Regulation (EC) No 1467/97, the correction of the excessive deficit is to be completed in the year following its identification unless there are special circumstances. The adjustment path should be determined in line with Regulation (EC) No 1467/97, taking into account the economic and fiscal position of the Member State concerned.

(18) In the present situation, such special circumstances exist in Romania. Granting Romania one additional year, which would be in line with the rule established in Article 3(4) of Regulation (EC) No 1467/97, would require a very sharp fiscal adjustment and result in significant output losses, thus risking compromising the economic recovery after the

COVID-19 pandemic. An adjustment path with a deadline for correcting the excessive deficit by 2024, while still requiring substantial annual adjustments, would imply a more gradual effort and strike a good balance between fiscal consolidation and supporting the economic recovery. The new adjustment path also takes into account the changed fiscal situation, including budgetary developments in 2020 and the new budgetary strategy put in place by the Romanian government. Reforms, including those that improve the management of public finances, would be instrumental in ensuring a durable correction of the excessive deficit. In light of those considerations, and consistent with the fiscal policy orientations set out in the Communication of the Commission of 3 March 2021, setting a deadline to correct the excessive deficit by 2024 is justified.

(19) A credible and sustainable adjustment path under that deadline would require Romania to achieve a headline general government deficit target of 8,0 % of GDP in 2021, 6,2 % of GDP in 2022, 4,4 % of GDP in 2023, and 2,9 % of GDP in 2024, in line with the government's own targets. This, based on the Commission 2021 spring economic forecast, is consistent with a nominal growth rate of net primary government expenditure of 3,4 % in 2021, 1,3 % in 2022, 0,9 % in 2023 and 0,0 % in 2024 [6]. Such growth rates of net primary government expenditure will be the primary indicator used to assess the fiscal effort if a careful analysis is needed. The corresponding annual fiscal adjustment in the structural balance is 0,7 % of GDP in 2021, 1,8 % of GDP in 2022, 1,7 % of GDP in 2023 and 1,5 % of GDP in 2024.

(20) To assess the potential impact of overall fiscal policy on output, at the current juncture the sizeable payments from the Union budget (under the Facility and other Union funds) should be included in the relevant expenditure aggregate, as a measure of fiscal stance [7]. On this basis, Union funds are expected to have a significant positive impact on the Romanian economy in the coming years. Specifically, investments and reforms supported by the Facility provide an opportunity for Romania to improve its underlying fiscal position in the medium term while still supporting growth and job creation.

(21) Budgetary consolidation measures should secure a lasting correction of the excessive deficit, while being geared towards enhancing the quality of public finances and reinforcing the growth potential of the economy. Reforms of a fiscal and broader economic nature, including reforms of the pension system, tax administration, public sector wages and state-owned enterprises governance, should support the fiscal consolidation effort and make it sustainable.

(22) Since 2016, Romania has systematically and repeatedly derogated from its national fiscal rules and from the timeline for the adoption of the medium-term fiscal strategy, enshrined in the national fiscal framework. Going forward, Romania's budgetary adjustment would be supported by the full application of the national fiscal framework,

HAS ADOPTED THIS RECOMMENDATION:

1. Romania should put an end to the excessive deficit situation by 2024 at the latest.

2. Romania should reach a headline general government deficit target of 8,0 % of GDP in 2021, 6,2 % of GDP in 2022, 4,4 % of GDP in 2023, and 2,9 % of GDP in 2024, which is consistent with a nominal growth rate of net primary government expenditure of 3,4 % in 2021, 1,3 % in 2022, 0,9 % in 2023 and 0,0 % in 2024. This corresponds to an annual structural adjustment of 0,7 % of GDP in 2021, 1,8 % of GDP in 2022, 1,7 % of GDP in 2023 and 1,5 % of GDP in 2024.

3. Romania should fully implement the measures already adopted for 2021. It should specify and implement the additional measures that are necessary to achieve the correction of its excessive deficit by 2024. Budgetary consolidation measures should secure a sustainable correction in a growth-friendly manner. Any windfall gains should be used to reduce the general government deficit.

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(6) Net primary government expenditure comprises total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally-financed gross fixed capital formation is smoothed over a four-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

(7) The overall fiscal stance is measured by comparing the change in primary expenditure (net of discretionary revenue measures but including changes in expenditure financed by the Facility and other non-repayable financial support by the Union) to the 10-year average potential growth rate. However, this estimate does not include the impact of the reforms that are part of the RRP and can boost Romania's economic potential growth. A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

4. The Council establishes the deadline of 15 October 2021 for Romania to take effective action and, in accordance with Article 3(4a) of Regulation (EC) No 1467/97, to report on the consolidation strategy that is envisaged to achieve the targets. Thereafter, Romania should report on progress made in the implementation of this Recommendation at least every six months until the excessive deficit has been corrected. Furthermore, Romania should ensure the full and effective application of its national fiscal framework. To ensure the success of the medium-term fiscal strategy, it will also be important to support the fiscal consolidation with comprehensive reforms.

This Recommendation is addressed to Romania.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Slovenia

(2021/C 304/25)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Slovenia to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Slovenia to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy, and sustainability of health and social protection systems for all.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).
([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Slovenia and delivering a Council opinion on the 2020 Stability Programme of Slovenia (OJ C 282, 26.8.2020, p. 157).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Slovenia was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 30 April 2021, Slovenia submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Slovenia's general government deficit was 8,4 % of gross domestic product (GDP), while general government debt increased to 80,8 % of GDP. The annual change in the primary budget balance amounted to - 8,9 % of GDP, including discretionary budgetary measures of 5,2 % of GDP in support of the economy and the operation of automatic stabilisers. Slovenia also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 5,5 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission at below ½ % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Slovenia, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value and did not diminish at a satisfactory pace. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

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(4) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The macroeconomic scenario underpinning the budgetary projections is cautious in 2021 and 2022. The 2021 Stability Programme forecasts real GDP to grow by 4,6 % in 2021 and by 4,4 % in 2022. The Commission's 2021 spring forecast projects real GDP growth of 4,9 % in 2021 and of 5,1 % in 2022. Private consumption in the Commission's 2021 spring forecast is expected to recover somewhat faster than in the 2021 Stability Programme due to crisis-induced pent-up demand and higher projected employment and wage growth. The Commission's 2021 spring forecast also expects higher investment dynamics in 2022 and stronger exports in 2021 and 2022.

(12) In its 2021 Stability Programme, the government plans an increase in the general government deficit from 8,4 % of GDP in 2020 to 8,6 % of GDP in 2021 and a decrease in the debt ratio to 80,4 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 9,2 % of GDP in 2021, reflecting discretionary budgetary measures of 2,6 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast, according to which the general government deficit is expected to reach 8,5 % of GDP and the debt ratio is set to amount to 79,0 % of GDP. Although both projections foresee a significant increase in primary expenditure that is not explained by crisis-related temporary emergency measures, there are differences in their composition. The Commission's 2021 spring forecast projects a lower public investment path due to a lower absorption of Union funds in 2021 and a slower roll-out of nationally financed investment projects. Higher nominal growth in some current expenditure categories is also to be expected. The projected debt ratio in the Commission's 2021 spring forecast is lower due to more favourable nominal GDP dynamics.

(13) In response to the COVID-19 pandemic and related economic downturn, Slovenia has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Slovenia in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,6 % of GDP in 2021, 1,2 % in 2022 and 0,7 % in 2023. It projects further expenditure of 0,2 % of GDP in 2024 and around 0,3 % in 2025 and 2026. The 2021 Stability Programme also assumes loans under the Recovery and Resilience Facility amounting to 0,1 % of GDP in 2022 and reaching up to 0,4 % of GDP in 2025. The Commission's 2021 spring forecast does not fully include these grants in its budgetary projections due to the fact that this information was not available at the cut-off date of that forecast. Instead, the Commission's 2021 spring forecast assumes expenditure financed by the grants of 0,2 % of GDP in 2021 and 0,6 % of GDP in 2022 based on the information in the recovery and resilience plan adopted by the government on 28 April 2021.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain

[5] In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures) including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Slovenia's general government deficit is planned to decrease to 5,7 % of GDP in 2022, mainly driven by the economic recovery and the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to decrease to 79,6 % of GDP in 2022. The Commission's 2021 spring forecast projects lower deficit (4,7 % of GDP) and debt ratios (76,7 % of GDP). In both projections, primary expenditure path (excluding crisis related temporary emergency measures) remains high. The difference in the deficit projections is explained largely by a more favourable macroeconomic scenario in the Commission's 2021 spring forecast and thus lower share of total expenditure in the GDP. Neither of the two projections includes the impact of a number of measures, including a large tax reform package adopted recently by the government. According to the information provided in the 2021 Stability Programme, if adopted by the parliament, those measures may have a deficit-increasing impact of at least 0,7 % of GDP in 2022. Based on the Commision's 2021 spring forecast, and on the basis of the specific methodology that reflects the above mentioned challenges, the overall fiscal stance –including the impact on aggregate demand in 2022 from investment financed by both the national and the Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,1 % of GDP ([6]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,3 percentage point of GDP. Nationally financed investment is projected to provide a neutral contribution ([7]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,2 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 3,8 % of GDP in 2023 to 2,8 % of GDP in 2024. The general government deficit is thus planned to no longer exceed 3-%-of-GDP Treaty reference value in 2024. Based on the 2021 Stability Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 1,5 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,6 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,4 percentage point of GDP ([8]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,6 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 4¼ % ([9]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Slovenia's potential growth.

([6]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

([7]) Other nationally financed capital expenditure is also projected to provide a neutral contribution.

([8]) Other nationally financed capital expenditure is projected to provide a neutral contribution.

([9]) Estimated by the Commission in accordance with the commonly agreed methodology.

(20) The general government debt ratio is planned to decrease from 79,0 % of GDP in 2023 to 78,0 % of GDP in 2024. Slovenia is considered to face medium fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Slovenia to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS SLOVENIA TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.
2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.
3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Slovakia

(2021/C 304/26)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Slovakia to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Slovakia to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

([1]) OJ L 209, 2.8.1997, p. 1.

([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Slovakia and delivering a Council opinion on the 2020 Stability Programme of Slovakia (OJ C 282, 26.8.2020, p. 164).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Slovakia was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020, and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty. However, some measures did not appear to be temporary or matched by offsetting measures.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 12 May 2021, Slovakia submitted its 2021 Stability Programme, beyond the deadline established in Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Slovakia's general government deficit was 6,2 % of gross domestic product (GDP), while general government debt increased to 60,6 % of GDP. The annual change in the primary budget balance amounted to - 4,8 % of GDP, including discretionary budgetary measures of 3,6 % of GDP in support of the economy and the operation of automatic stabilisers. Slovakia also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 2,1 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be roughly equivalent to 1 % of GDP.

[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Slovakia, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled, but the debt criterion was complied with.

(11) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and 2022, given the current uncertainty. The 2021 Stability Programme projects real GDP to grow by 3,3 % in 2021 and 6,3 % in 2022. By comparison, the Commission's 2021 spring forecast projects a more front-loaded recovery, with real GDP growth of 4,8 % in 2021 and 5,2 % in 2022.

(12) In its 2021 Stability Programme, the government plans an increase in the general government deficit from 6,2 % of GDP in 2020 to 9,9 % of GDP in 2021, while the debt ratio is planned to increase to 64,1 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 4,0 % of GDP, reflecting the discretionary budgetary measures of 2,3 % of GDP in support of the economy and the operation of automatic stabilisers. The planned deficit and debt ratios are higher than those projected by the Commission's 2021 spring forecast. The Commission forecasts a general government deficit of 6,5 % and a debt ratio of 59,5 % in 2021. The Commission's 2021 spring forecast does not include a provision for pandemic-related expenditure of 2,4 percentage points of GDP, and higher expenditure of State enterprises and of the Social Insurance Agency, which are both included in the general government, because information was not available at the forecast cut-off date. The Commission forecasts revenues that are 0,2 percentage point of GDP higher and expenditure that is 3,4 percentage points lower than the 2021 Stability Programme. The major differences in expenditure are attributed to lower intermediate consumption, lower social payments and lower subsidies assumed in the Commission's 2021 spring forecast. The Commission's lower debt forecast is primarily explained by a lower primary balance (by 3,6 percentage points).

(13) In response to the COVID-19 pandemic and related economic downturn, Slovakia has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Slovakia in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. However, some of the discretionary measures adopted by the government over the period 2020 to 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's 2021 spring forecast, in 2023, the cumulative remaining impact of those non-temporary measures is preliminarily estimated at around 1 % of GDP, mainly consisting of the reintroduction of Christmas bonuses, changes in the green energy scheme, higher remuneration for military officials, a reduction in the motor vehicles tax, the cancellation of the bank levy, grants to healthcare facilities and tax credits for children. Those non-temporary measures were only partly compensated by the freezing of the minimum pension and the growth of ministries' operating costs.

(14) The 2021 Stability Programme does not include receipts of grants under the Recovery and Resilience Facility in the fiscal aggregates. Nonetheless, it assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,2 % of GDP in 2021, 1,1 % in 2022 and 1,3 % in both 2023 and 2024 in its underpinning macroeconomic scenario. The Commission's 2021 spring forecast includes these grants in its budgetary projections.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from

the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted [5] and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Slovakia's general government deficit is planned to decrease to 5,1 % of GDP in 2022, mainly due to the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to increase to 65,5 % of GDP in 2022. These projections are higher than the Commission's 2021 spring forecast. The Commission's forecast assumes smaller COVID-19 measures and a faster drawdown rate of Union funds in 2022 compared to the 2021 Stability Programme. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at + 0,9 % of GDP [6]. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,8 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,7 percentage point of GDP [7]. Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 1,1 percentage points of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow improving the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 4,1 % of GDP in 2023 to 3,8 % of GDP in 2024. The general government deficit is thus planned to exceed the 3 %-of-GDP Treaty reference value for the duration of the 2021 Stability Programme. Based on the 2021 Stability Programme, the overall fiscal stance — including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 0,2 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by

[5] In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

[6] A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

[7] Other nationally financed capital expenditure is projected to provide a neutral contribution.

Recovery and Resilience Facility grants and other Union funds is projected to decrease by 0,3 percentage point of GDP. Nationally financed investment is projected to provide a neutral contribution [8]. Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 1,3 percentage points of GDP. The current estimate of the 10-year average nominal potential growth is 4½ % [9]. However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Slovakia's potential growth.

(20) The general government debt ratio is planned to increase from 64,6 % of GDP in 2023 to 65,8 % of GDP in 2024. Slovakia is considered to face medium fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Slovakia to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS SLOVAKIA TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.
2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.
3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

(8) Other nationally financed capital expenditure is projected to provide an expansionary contribution of 1,6 percentage points of GDP.

(9) Estimated by the Commission in accordance with the commonly agreed methodology.

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Stability Programme of Finland

(2021/C 304/27)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation ([3]) ('the Council Recommendation of 20 July 2020'). It recommended Finland to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Finland to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) The 2021 Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro-area Member States throughout 2021 and that policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. When the epidemiological and economic conditions allow, emergency measures should be phased out, while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies that are aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Member States should pursue reforms that strengthen the coverage, adequacy and sustainability of health and social protection systems for all.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).
([3]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Finland and delivering a Council opinion on the 2020 Stability Programme of Finland (OJ C 282, 26.8.2020, p. 171).

(4) On 18 November 2020, the Commission adopted its opinions on the 2021 draft budgetary plans of the euro-area Member States, which were based on a qualitative assessment of the fiscal measures. The Commission was of the opinion that the draft budgetary plan of Finland was overall in line with the fiscal policy recommendations set out in the Council Recommendation of 20 July 2020 and that most of the measures included in the draft budgetary plan supported economic activity against the background of considerable uncertainty.

(5) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(6) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(7) In its communication of 3 March 2021, the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(8) On 13 May 2021, Finland submitted its 2021 Stability Programme, beyond the deadline established in Article 4 of Regulation (EC) No 1466/97.

(9) In 2020, based on data validated by Eurostat, Finland's general government deficit was 5,4 % of fross domestic product (GDP), while general government debt increased to 69,2 % of GDP. The annual change in the primary budget balance amounted to - 4,6 % of GDP, including discretionary budgetary measures of 3,0 % in support of the economy and the operation of automatic stabilisers. Finland also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact), estimated at 20,1 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be roughly equivalent to 1 % of GDP.

(10) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Finland, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value, while its general government debt exceeded the 60 %-of-GDP Treaty reference value and did not diminish at a satisfactory pace. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

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[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The macroeconomic scenario underpinning the budgetary projections is plausible in 2021 and 2022. According to the 2021 Stability Programme, real GDP growth is projected to reach 2,6 % in 2021 and 2,5 % in 2022. This is in line with the Commission's 2021 spring forecast, although that forecast predicts somewhat higher consumption and GDP growth in 2022.

(12) In its 2021 Stability Programme, the government plans a decrease in the general government deficit from 5,4 % of GDP in 2020 to 4,7 % of GDP in 2021, while the debt ratio is planned to increase to 71,6 % of GDP in 2021. According to the 2021 Stability Programme, the change in the primary budget balance compared with the pre-crisis level (2019) is set to amount to - 4,1 % of GDP, reflecting discretionary budgetary measures of 1,5 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast.

(13) In response to the COVID-19 pandemic and related economic downturn, Finland has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Finland in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary measures adopted by the government in 2020 and 2021 are temporary or matched by offsetting measures.

(14) The 2021 Stability Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,1 % of GDP in 2021, 0,2 % of GDP in 2022, 0,2 % of GDP in 2023, 0,2 % of GDP in 2024 and 0,1 % of GDP in 2025. The Commission's 2021 spring forecast includes these grants in its budgetary projections, but with the assumption that measures financed by the Recovery and Resilience Facility would be frontloaded more in 2021 and 2022.

(15) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted (5) and complemented with additional information in order to fully gauge the fiscal policy orientation.

(16) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(17) In its 2021 Stability Programme, Finland's general government deficit is planned to decrease to 2,9 % of GDP in 2022, mainly due to a discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to increase to 72,4 % of GDP in 2022. The Commission's 2021 spring forecast

(5) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

predicts lower deficit (2,1 % of GDP) and debt ratios (70,1 % of GDP), mainly reflecting inclusion of the measures decided by the government on 29 April in the 2021 Stability Programme as well as a stronger economic recovery forecast for 2022 by the Commission. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 0,5 % of GDP [6]. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,1 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,2 percentage point of GDP [7]. Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,4 percentage point of GDP.

(18) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(19) According to the 2021 Stability Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 2,1 % in 2023 to 1,7 % of GDP in 2024. Based on the 2021 Stability Programme, the overall fiscal stance –including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 0,7 % of GDP in 2023 and 2024 on average. The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to remain unchanged. Nationally financed investment is projected to provide a contractionary contribution of 0,1 percentage point of GDP [8]. Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,5 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 3 % [9]. However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Finland's potential growth.

(20) The general government debt ratio is planned to increase from 73,9 % of GDP in 2023 to 74,7 % of GDP in 2024. Finland is considered to face low fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(21) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(22) The Council has assessed the 2021 Stability Programme and the follow-up by Finland to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS FINLAND TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

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[6] A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

[7] Other nationally financed capital expenditure is projected to provide a neutral contribution.

[8] Other nationally financed capital expenditure is projected to provide a neutral contribution.

[9] Estimated by the Commission in accordance with the commonly agreed methodology.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investement supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Convergence Programme of Sweden

(2021/C 304/28)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 [2], facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating 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. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 20 July 2020, the Council adopted a Recommendation [3] ('the Council Recommendation of 20 July 2020'). It recommended Sweden to take all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Sweden to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

(3) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [4], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

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[1] OJ L 209, 2.8.1997, p. 1.

[2] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

[3] Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Sweden and delivering a Council opinion on the 2020 Convergence Programme of Sweden (OJ C 282, 26.8.2020, p. 177).

[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(4) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. The overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. At the same time, given the expectation that economic activity will gradually normalise in the second half of 2021, Member States' fiscal policies should become more differentiated in 2022. Member States' fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. In view of the need to support a sustainable recovery for the Union, Member States with low sustainability risks should gear their budgets towards maintaining a supportive fiscal policy in 2022, taking into account the impact of the Recovery and Resilience Facility. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally financed investment and making use of grants under the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. For the period beyond 2022, fiscal policies should continue to take into account the strength of the recovery, the degree of economic uncertainty and fiscal sustainability considerations. A refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, including by phasing out support measures in due course, will contribute to ensuring fiscal sustainability in the medium term.

(5) In its communication of 3 March 2021 the Commission also took the view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(6) On 30 April 2021, Sweden submitted its 2021 Convergence Programme, in line with Article 8 of Regulation (EC) No 1466/97.

(7) In 2020, based on data validated by Eurostat, Sweden's general government deficit was 3,1 % of gross domestic product (GDP), while general government debt increased to 39,9 % of GDP. The annual change in the primary budget balance amounted to - 3,8 % of GDP, including discretionary budgetary measures of 3,3 % of GDP in support of the economy and the operation of automatic stabilisers. Sweden also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 11,5 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be roughly equivalent to 1 % of GDP.

(8) On 2 June 2021, the Commission issued a report under Article 126(3) of the Treaty. That report discusses the budgetary situation of Sweden, as its general government deficit in 2020 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was fulfilled.

(9) The macroeconomic scenario underpinning the budgetary projections is cautious in 2021 and realistic in 2022. Being based on more recent data, the Commission's 2021 spring forecast projects a rate of real GDP growth in 2021 that is higher than the baseline scenario in the 2021 Convergence Programme.

(10) In its 2021 Convergence Programme, the government plans an increase in the general government deficit from 3,1 % of GDP in 2020 to 4,5 % of GDP in 2021, while the debt ratio is planned to remain at 39,9 % of GDP in 2021. According to the 2021 Convergence Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to - 5,2 % of GDP, reflecting the discretionary budgetary measures of 5,0 % of GDP in support of the economy and the operation of automatic stabilisers. These projections for the general government deficit are higher than in the Commission's 2021 spring forecast, which projects a faster rebound in economic activity and therefore lower expenditure on crisis support measures, in particular measures to cover temporary unemployment and turnover losses of firms that are heavily affected by the crisis.

(11) In response to the COVID-19 pandemic and related economic downturn, Sweden has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. Fiscal measures

should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. The measures taken by Sweden in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures, adopted by the government over the period 2020 and 2021, do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's forecast, in 2023, the cumulative remaining impact of those non-temporary measures is preliminarily estimated at around 1 % of GDP, mainly consisting of several expenditure measures as well as income tax cuts.

(12) The 2021 Convergence Programme does not include any expenditure under the Recovery and Resilience Facility. The Commission's 2021 spring forecast includes revenue from grants under the Recovery and Resilience Facility in its budgetary projections amounting to 1/11th of the total available grant allocation in 2021 and 2/11th in 2022 and assumes a simplified and linear integration of expenditure financed by the Recovery and Resilience Facility ([5]).

(13) The established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. First, there is significant uncertainty surrounding output gap estimates. Second, there is a need for fiscal policy to stand ready to rapidly adapt to the evolution of the COVID-19 pandemic, shifting from emergency relief to more targeted measures once health risks diminish. Third, the current context is characterised by a significant policy response to support economic activity. In the presence of sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility), the established indicators do not capture the full impulse provided to the economy by fiscal policies. Against this background, the structural balance does not appear adequate in the current circumstances. The expenditure benchmark also needs to be adapted ([6]) and complemented with additional information in order to fully gauge the fiscal policy orientation.

(14) As in the approach pursued in the assessment of the 2021 draft budgetary plans, temporary emergency measures have been excluded from the expenditure aggregate. These crisis-related temporary emergency measures support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions; their reversal by the public authorities is contingent on the return of the public health and economic situation to normality. To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures), including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(15) In its 2021 Convergence Programme, Sweden's general government deficit is planned to decrease to 1,0 % of GDP in 2022, in line with the Commission's 2021 spring forecast, mainly due to the economic recovery, coupled with the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to decrease to 37,0 % of GDP in 2022, somewhat below the Commission's 2021 spring forecast, partly due to valuation effects. Based on the Commision's 2021 spring forecast, and on the basis of the specific methodology that reflects the above mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and the Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,2 % of GDP ([7]). The positive contribution of expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,1 percentage point of GDP. Nationally financed investment is projected to provide a neutral contribution ([8]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide an expansionary contribution of 0,1 percentage point of GDP.

([5]) See Box 1.2.3 in the Commission's European Economic Forecast of spring 2021.

([6]) In particular, the four-year smoothing of investment used in the expenditure benchmark does not allow for a proper assessment of the fiscal support for the recovery provided by nationally financed investments.

([7]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

([8]) Other nationally financed capital expenditure is projected to provide a neutral contribution.

(16) The quality of Member States' budgetary measures appears particularly important. Fiscal structural reforms aimed at improving the composition of national budgets can support potential growth, create much-needed fiscal space and help to ensure fiscal sustainability over the longer term, including in view of climate change and health challenges. On the revenue side, the COVID-19 crisis has reinforced the importance of reforms for more efficient and fairer public revenue systems. On the expenditure side, it has made it even more crucial to increase the level and quality of sustainable and growth-enhancing investments, in a manner consistent with serving the objectives of enhancing growth potential, economic and social resilience and the green and digital twin transition. The national recovery and resilience plans will allow to improve the composition of national budgets.

(17) According to the 2021 Convergence Programme's medium-term budgetary plans, the general government surplus is planned to increase from 0,5 % in 2023 to 1,0 % of GDP in 2024. The 2021 Convergence Programme does not include the information required to estimate the overall fiscal stance in 2023 and 2024. The current estimate of the 10-year average nominal potential growth is 4 % ([9]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Sweden's potential growth.

(18) The general government debt ratio is planned to decrease from 33,7 % of GDP in 2023 to 31,4 % of GDP in 2024. Sweden is considered to face low fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(19) In view of the currently still exceptionally high degree of uncertainty, the fiscal policy guidance should remain predominantly qualitative. More precise quantified guidance for the later years should be provided in 2022, if the degree of uncertainty has sufficiently declined by then.

(20) The Council has assessed the 2021 Convergence Programme and the follow-up by Sweden to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS SWEDEN TO:

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.
2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.
3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

([9]) Estimated by the Commission in accordance with the commonly agreed methodology.

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