SUMMARY AND RECOMMENDATIONS

This Report of the Section "Public Sector Borrowing Requirements" of the High Council of Finance (hereafter referred to as 'the Section') discusses recent budgetary evolutions. Prior to the analysis of the 2018 budget results, the Section wishes to make a number of observations regarding the importance of the budget coordination and the outlook for the 2019 and 2020 budget years (Section 1 of the Report). Subsequently, the budget results for 2018 are set in a medium-term perspective (Section 2 of the Report) and assessed on the basis of the existing budget rules (Section 3 of the Report).

Observations by the Section with regard to the budget coordination in 2019 and the outlook for 2019-2020

Internal budget coordination

In March 2019, the Section published its recommendations in preparation for the 2019-2022 Stability Programme [1]. On 26 April 2019, the caretaker Federal Government submitted the Belgian 2019-2022 Stability Programme to the European Commission [2].

Given the Federal and Regional elections of 26 May 2019, the Stability Programme describes a purely ***indicative*** budgetary path for both the overall budgetary objective of the General Government and the distribution of that objective between Entity I [3] and Entity II [4]. Once again, no distribution has been made of the budgetary path for Entity II among the individual C&R (Communities and Regions) and all Local Authorities.

Consultations were held in the Concertation Committee of 24 April 2019 on the Stability Programme 2019-2022 and the indicative budgetary path therein, between the federal and the various regional governments, all are caretaker governments.

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1 The Cooperation Agreement of 13 December 2013 commissions the Section to publish an Advice on the budgetary path of the General Government and its distribution among the different levels of government during the annual update of the Stability Programme. This normative Advice forms the basis for the Stability Programme and for the inter-federal coordination in the Concertation Committee with regard to the budgetary path for the General Government and the individual budgetary objectives.

2 As required by Article 3 of European Regulation No 1466/97 of the Council of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

3 Entity I is made up of the Federal Government and the Social Security.

4 Entity II is made up of Communities, Regions, Community Commissions and Local Authorities.

The wording of the Stability Programme implies that <u>the consultations</u> of April 2019 will <u>have to be resumed</u> by the newly formed governments at federal and regional level, <u>and to result in an effective decision by the Concertation Committee on the individual budgetary objectives</u> in nominal and structural terms for the period 2019-2022 for the General Government and Entity I, Entity II, the individual C&R, and all Local Authorities.

Apart from the exception in the 2018-2021 Stability Programme regarding the budgetary path for the General Government, the Section notes that **since the Cooperation Agreement has entered into force** on 1 January 2014 **no consensus** has been reached between the contracting parties and consequently **no agreement** has been reached regarding the budgetary objectives. The Section also notes that **in neither the Stability Programme 2019-2022 nor the Concertation Committee of 24 April 2019 budgetary objectives were specified** for the each level of government that together form the General Government. **This directly violates Article 2, § 4, of the Cooperation Agreement [5] signed by the Federal Government and the Communities and Regions after having been approved by their respective Parliaments.**

As a consequence, the lack of implementation of the budget coordination implies that:

- **the credibility of the proposed budgetary paths could be questioned**;
- **the Section cannot fulfil its monitoring task** as commissioned by the Cooperation Agreement;
- **the Section cannot activate the national correction mechanism** as provided for in the same Cooperation Agreement in the event that it observes a significant deviation at the level of the General Government, as this deviation cannot be attributed to a specific individual government.

The Section therefore reminds again of the importance of a solid budget coordination in order to achieve the adjustment path towards the MTO *(Medium Term Objective)*, **in accordance with Belgium's commitments towards the European Union and thus guaranteeing the sustainability of public finances in the interest of future generations.**

[5] The full text of the Cooperation Agreement of 13 December 2013 is included in Appendix 4.3.

The European Commission has also made serious remarks regarding the lack of budget coordination in Belgium. In its proposal for Country-Specific Recommendations addressed to the Council of the European Union [6], the Commission states inter alia that:

- budget **coordination** between the levels of government is **not flexible enough to create margins for public investments**;

- an **effective** budget **coordination is necessary in a federal state** such as Belgium where a large part of public expenditure falls within the competence of the C&R and Local Authorities;

- the absence of an agreement on the budgetary objectives for each level of government could **undermine the achievement of the global budgetary path towards the MTO.**

Preview for the current year and 2020

The Advice issued by the Section in March 2019 in preparation for the Stability Programme 2019-2022 is conditioned by an economic growth outlook that aligns very closely with potential growth [7]. Nevertheless, **the March Advice was formulated in an economic context characterized by major economic uncertainties**, such as the uncertainty at the level of the underlying macroeconomic parameters due to a possible deterioration in the international economic context, and the presence of significant political uncertainties, such as a possible slowdown in international trade and the risk of an unstructured Brexit. In addition, some uncertainty exists about the extent of the decline in corporate income tax revenue after this reached a historically high level in 2018. **The Section notes that these uncertainties are still omnipresent to this day.**

The path included in the Stability Programme 2019-2022 (April 2019) aims to achieve the Medium-Term Objective (**MTO**), set at the **structural balance in 2021** for all levels of government. **For 2019, a structural improvement of 0.15 percentage point of GDP has been retained in the Stability Programme.** This objective anticipates the approval of Belgium's application for the flexibility clause for structural reforms [8].

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6 Recommendation for a Council recommendation on the 2019 National Reform Programme of Belgium and delivering a Council opinion on the 2019 Stability Programme of Belgium, 05.06.2019, COM(2019) 501 final.

7 Economic Outlook 2019-2024, version of 14 February 2019, Federal Planning Bureau.

8 This application was submitted along with the presentation to the European Commission of the draft budgetary plan 2019 in October 2018. In the meantime, the Commission has given a positive opinion to the Council of the European Union.

The Section notes that both the European Commission and the Federal Planning Bureau expect (under unchanged policy) an unfavourable evolution of the structural balance in the coming years. Depending on the sources consulted and the assumptions they made regarding the output gap and the one-off transactions, the structural balance in 2019 would stabilize roughly (EC), or deteriorate by 0.4% of GDP (FPB). A deterioration of 0.3% of GDP (EC) or 0.2% of GDP (FPB) is expected for 2020.

Table 1
Overview of the current forecasts under unchanged policy for 2019-2020 of the structural balance (in % of GDP)

% of GDP	EC (May 2019)			FPB (June 2019)		
	2018	2019[f]	2020[f]	2018	2019[f]	2020[f]
Nominal Balance	-0.7%	-1.3%	-1.5%	-0.7%	-1.6%	-2.1%
Cyclical Component	0.1%	0.1%	0.1%	0.1%	0.0%	-0.1%
One-shots	0.6%	0.0%	0.1%	0.7%	0.2%	0.0%
Structural Balance	**-1.4%**	**-1.4%**	**-1.8%**	**-1.4%**	**-1.8%**	**-2.0%**
Evolution (Δ SB)		-0.04%	-0.32%		-0.41%	-0.19%

Source: EC Spring Forecast 2019 (May 2019), FPB Economic Outlook 2019-2024 (June 2019)

Based on the current available forecasts, a risk exists that the objectives set for 2019 and 2020 in the 2019-2022 Stability Programme, i.e. a structural improvement of 0.15% of GDP in 2019 and 0.60% of GDP in 2020, will not be achieved and that a significant additional effort will be required.

The Section therefore strongly urges the new governments to take the necessary structural measures during the current and coming budget years so that the path retained in the Stability Programme 2019-2022 can be achieved and the sustainability of the public debt can be guaranteed.

In this regard, the Section also wishes to draw attention to **the European Commission's pessimistic assessment of compliance with the criteria of the Stability and Growth Pact in 2019 and 2020**. The Commission has concluded that:

1. the global assessment confirms the <u>risk of a significant deviation</u> from the adjustment path towards the MTO in 2018 and 2019 considered jointly;

2. based on the global assessment, a <u>significant deviation</u> from the adjustment path towards the MTO is <u>expected in 2019 and 2020</u>, as there is a <u>risk</u> that the criteria of the <u>preventive arm</u> of the Stability and Growth Pact are <u>not met</u>.

The Section reminds of the possible consequences if the aforementioned risks and expectations were to become reality. Failure to meet the criteria of the Stability and Growth Pact may lead the Council of the European Union to launch again (as was the case in 2014) the Excessive Deficit Procedure (EDP) or to initiate a significant deviation procedure.

The Commission's specific recommendations are mentioned in Section 1.4. of this Report.

Budget achievements for 2018 within a medium-term perspective

In 2018, the General Government achieved a nominal balance of -0.7% of GDP. The borrowing requirement of the General Government thus fell by 0.1 percentage point of GDP compared to the 2017 budget year, in which a deficit of 0.8% of GDP was achieved. The government revenue ratio increased by 0.4 percentage point of GDP in 2018 to reach a level of 50.0% of GDP. The sharp increase in government revenue mainly resulted from a strong increase in corporate income tax revenue. Indeed, as in 2017, the strong surge in corporate advance payments was also observed in 2018. However, a part of this increase is of a temporary nature and is therefore not taken into account in a structural approach.

At the same time, the government expenditure ratio rose by 0.3 percentage point of GDP to 50.7% of GDP. The increase in primary expenditure by 0.5 percentage point of GDP can be explained, among other things, by the increase in Belgian GNI contribution to the EU budget (this was temporarily reduced in 2017), the increase in social benefits and the increase in public investments in 2018. The increase in primary expenditure was partly offset by a fall in interest expenditure by 0.2 percentage point of GDP.

The primary balance remained unchanged in 2018. The primary surplus amounted to 1.6% of GDP in both 2017 and 2018, unlike the nominal balance, which slightly improved due to the further drop in interest expenditure. The interest expenditure reached a level of 2.3% of GDP in 2018.

Table 2
Budget results of the General Government (in % of GDP)

	2014	2015	2016	2017	2018	2017-2018
Revenue (*)	**50.2%**	**49.6%**	**49.0%**	**49.6%**	**50.0%**	**0.4%**
Fiscal and parafiscal revenue	45.4%	45.0%	44.1%	44.7%	45.1%	0.4%
Direct taxes on households (i.a. PIT)	13.3%	12.9%	12.4%	12.4%	12.4%	0.0%
Direct taxes on companies (i.a. CIT)	3.2%	3.4%	3.6%	4.2%	4.5%	0.3%
Direct taxes on other sectors	0.2%	0.2%	0.3%	0.2%	0.2%	0.0%
Indirect taxes	13.3%	13.3%	13.5%	13.5%	13.6%	0.1%
Actual social contributions	14.3%	14.3%	13.7%	13.6%	13.5%	-0.1%
Capital taxes	1.0%	0.9%	0.8%	0.8%	0.8%	0.0%
Non-fiscal revenue, among which	4.8%	4.6%	4.9%	4.9%	4.9%	0.0%
Property income	1.0%	0.9%	0.9%	0.9%	0.9%	0.0%
Primary expenditure (*)	**50.0%**	**48.9%**	**48.6%**	**48.0%**	**48.5%**	**0.5%**
Remuneration	10.3%	10.2%	10.1%	10.0%	10.0%	-0.1%
Social benefits, among which	25.3%	25.2%	25.1%	25.0%	25.2%	0.2%
in money	*17.3%*	*17.2%*	*17.2%*	*17.1%*	*17.3%*	*0.2%*
in kind	*8.0%*	*8.0%*	*8.0%*	*7.9%*	*7.9%*	*0.0%*
Investments	2.3%	2.3%	2.2%	2.2%	2.4%	0.2%
Others	12.1%	11.3%	11.1%	10.7%	10.9%	0.2%
Primary balance	**0.2%**	**0.6%**	**0.4%**	**1.6%**	**1.6%**	**-0.1%**
Interest expenditure	3.3%	3.0%	2.8%	2.5%	2.3%	-0.2%
Nominal balance	**-3.1%**	**-2.4%**	**-2.4%**	**-0.8%**	**-0.7%**	**0.1%**
Cyclical component	-0.7%	-0.3%	-0.2%	0.0%	0.1%	0.0%
One-shots	0.3%	0.2%	-0.1%	0.3%	0.7%	0.3%
Structural balance	**-2.8%**	**-2.2%**	**-2.1%**	**-1.2%**	**-1.4%**	**-0.2%**
Structural primary balance	0.5%	0.8%	0.7%	1.3%	0.8%	-0.5%
Gross debt	**107.5%**	**106.3%**	**106.1%**	**103.4%**	**102.0%**	**-1.4%**

(*) Revenue and primary expenditure are determined in accordance with the HCF definition (excluding imputed social contributions, but including transfers to the EU, and the sale of assets is booked as revenue).

Source: INA (Government Accounts (April 2019)), FPB Economic Outlook 2019-2024 (June 2019), and HCF calculations.

In a structural approach, the impact of the cycle and one-off and temporary measures on the budget balance is disregarded. In structural terms, the balance deteriorated by 0.2 percentage point of GDP in 2018 to reach a level of -1.4% of GDP. The improvement in the nominal balance (+0.1 percentage point of GDP) can be partially linked to the evolution of the impact of one-off and temporary factors (+0.3 percentage point of GDP). In 2018, the one-shots had a significant positive impact of +0.7% of GDP on the budget balance (mainly due to the temporary increase in corporate advance payments), while in 2017 these had still a positive impact of 0.3% of GDP.

In Section 2 of this Report, the budgetary evolution of the General Government is broken down into its subsectors: Entity I (Section 2.2), Communities and Regions (Section 2.3) and Local Authorities (Section 2.4).

Table 3
Budget balances of the subsectors of the General Government according to the HCF definition (in % of GDP)

	2014	2015	2016	2017	2018	2017-2018	*2018 (*)*	*2017-2018 (*)*
Entity I	-2.6%	-2.2%	-2.6%	-1.0%	-0.2%	0.8%	*-0.5%*	*0.5%*
Entity II	-0.5%	-0.2%	0.2%	0.2%	-0.5%	-0.7%	*-0.2%*	*-0.3%*
Communities & Regions	-0.4%	-0.3%	0.0%	0.0%	-0.5%	-0.5%	*-0.1%*	*-0.1%*
Local Authorities	-0.2%	0.1%	0.2%	0.2%	0.0%	-0.2%	*0.0%*	*-0.2%*
General Government	**-3.1%**	**-2.4%**	**-2.4%**	**-0.8%**	**-0.7%**	**0.1%**	***-0.7%***	***0.1%***

(*) Corrected for the one-shot "determination definitive autonomy factor".
Source: INA (Government Accounts (April 2019)), FPB Economic Outlook 2019-2024 (June 2019), and own calculations.

Budget achievements for 2018 in light of the existing budget rules

Assessment of compliance with the budget rules of the Stability and Growth Pact

The budgetary achievements of Belgium in 2018 are assessed against the criteria of the preventive and corrective arms of the Stability and Growth Pact (SGP) based on the data from the Spring Forecast of the European Commission (*Spring Forecast 2019* of May 2019).

The preventive arm aims to safeguard the sustainability of public finances in the medium term.

Belgium is subject to the provisions of the **preventive arm** of the SGP with regard to budgetary obligations and budgetary monitoring. In accordance with these provisions, Belgium must make sufficient progress to achieve its *Medium-Term Objective* (MTO). The assessment focusses on whether there has been a deviation between the achievements and the requirements, both over a one-year period (in this case 2018) and over a two-year period (in this case 2017-2018).

Table 4 summarises the compliance with the criteria of the preventive arm. Two indicators are of importance in this respect: the evolution of the structural balance and the real growth of the adjusted net primary expenditure [9].

[9] The considered expenditure does not take into account the interest expenditure, the expenses fully financed by European funds and the cyclical unemployment expenditure. The investment expenditure is distributed over four years. One-offs are excluded on both the revenue and expenditure side. Expenditure exceeding the criterion can be compensated by discretionary measures on the revenue side.

Table 4
Assessment of compliance with the preventive arm

EC	2017 (with flexibility)	2018 (without flexibility)
	Spring Forecast 2018	Spring Forecast 2019
PREVENTIVE ARM		
p.m. MTO (in % of GDP)	0.0%	0.0%
I. Indicator: evolution of the structural balance (ΔSB)		
Required structural improvement (after flexibility correction)	**0.58%**	**0.60%**
Flexibility clause	0.02%	
Recommendation by the Council	0.60%	0.60%
Evolution structural balance (freezing 2017)	0.83%	0.05%
1-year deviation expressed in % of GDP (freezing 2017)	0.25%	-0.55%
p.m. threshold (-0.50% of GDP)		
Average 2-year deviation expressed in % of GDP		-0.15%
p.m. threshold (-0.25%)		

PREVENTIVE ARM		
p.m. MTO (in % of GDP)	0.0%	0.0%
II. Indicator expenditure benchmark: net expenditure growth in nominal terms		
Reference value for t (variation compared to t-1)	**1.60%**	**1.61%**
Net expenditure growth in nominal terms (variation compared to t-1) (freezing 2017)	2.49%	3.15%
1-year deviation expressed in % of GDP (freezing 2017)	-0.45%	**-0.73%**
p.m. threshold (-0.50% of GDP)		
Average 2-year deviation expressed in % of GDP		**-0.59%**
p.m. threshold (-0.25% of GDP)		

Source: AMECO, *Spring Forecast* 2019.

According to the *Spring Forecast* 2019, the structural balance in 2018 is virtually stabilized at the level of the previous year (i.e. -1.4% of GDP in 2017); the structural improvement barely amounted to 0.05% of GDP. Compared to the improvement of 0.60% of GDP requested by the Council of the European Union, there is a negative deviation of 0.55% of GDP. Over the 2017-2018 period, there was a negative deviation of 0.15% of GDP on average. This deviation is not significant because it didn't exceed the threshold of 0.25% of GDP.

According to the EC, the nominal growth of adjusted net primary expenditure was 3.1% in 2018, whilst the norm only allowed an increase of 1.6%. Expressing the budgetary impact of the deviation between both growth rates in % of GDP, the negative deviation was 0.73% of GDP in 2018. This represents a significant deviation because the threshold of 0.50% of GDP was exceeded substantially. Over the 2017-2018 period, the average negative deviation from the reference value was 0.59% of GDP. This deviation is significant because it exceeded the threshold of 0.25% of GDP.

Both indicators provide a different view of the significance of the deviation. The evolution of the structural balance was influenced by the fall in interest expenditure (i.e. -0.3% of GDP in 2017 and -0.2% of GDP in 2018), which implies that, according to the European Commission, the expenditure criterion provides a better view of the underlying budget efforts.

The Commission draws attention to the substantial uncertainty about the potential structural nature of the growth in corporate tax revenue observed in 2017 and 2018.

For this reason and in line with its assessment of May 2018, the European Commission still believes that both the high level of the additional corporate income tax revenue and the large uncertainty about its structural or non-structural nature do not provide sufficient certainty to decide whether, at the level of the General Government, the deviation from the adjustment path towards the Medium-Term Objective (MTO) is significant in 2018 and in 2017-2018 considered jointly.

At the same time, Belgium still has to comply with the reference targets with regard to the budget deficit and the debt ratio in the context of the **corrective arm of the SGP**.

The 2018 nominal budget deficit is 0.1% of GDP lower than the previous year and amounts to 0.7% of GDP. Therefore, it is well below the critical deficit criterion threshold of 3% of GDP. Furthermore, according to the EC Spring Forecast, the deficit would also remain below the threshold in 2019 and 2020. Therefore, Belgium respects the deficit criterion.

With regard to the debt criterion, a numerical (*prima facie*) deviation is observed. For the European Commission, compliance with the adjustment path towards the MTO is an important relevant factor to consider the debt criterion to be fulfilled, despite a numerical deviation. **Provided there exists no sufficient robust evidence for the existence of a significant deviation from the adjustment path towards the MTO, no excessive deficit procedure (EDP) will be launched for non-compliance with the debt criterion in 2018.**

Table 5
Assessment of compliance with the corrective arm

EC	2018	2019	2020
		Spring Forecast 2019	
CORRECTIVE ARM			
Indicator: debt criterion			
Debt ratio (% of GDP)	102.01%	101.28%	100.74%
Debt criterion			
Forward looking	98.12%		
Backward looking	100.87%		
Cyclically adjusted	101.98%		
Deviation			
Forward looking (from debt ratio t+2) *	-2.62%		
Backward looking (from debt ratio t) *	-1.14%		
Cyclically adjusted (from backward looking t) *	-1.11%		

Source: AMECO, *Spring Forecast* 2019 and own calculations by the Secretariat.

Analysis in the national budget framework

The Stability Programme 2018-2021 was discussed in the Concertation Committee of 27 April 2019. **For the first time since 2014,** the Concertation Committee did not merely take note of **the proposed medium-term objective and budgetary paths**, but also came to a decision. **Consensus was reached** on the budgetary path of the Stability Programme 2018-2021 aimed at achieving the MTO in 2020 for all levels of government, with the MTO set at 0.0% of GDP. **However, the agreement does not go beyond the General Government level.**

The outcome of the Concertation Committee is **an improvement** compared to previous years, but the result **still does not comply with the principle of inter-federal budget coordination** to which the Federal Government, the individual Communities, Regions and Community Commissions have committed themselves in the Cooperation Agreement of 13 December 2013 [10]. **The path approved for the General Government was once again not supported by a comprehensive agreement on the budgetary objectives of the individual governments** that together form the General Government.

Due to the lack of formally approved individual objectives for 2018, the Section is not able to verify whether or not one or more entities deviate(s) significantly from the objective. The Section has therefore decided that the review of compliance with the objectives in 2018 remains a purely illustrative exercise.

10 The full text of the Cooperation Agreement of 13 December 2013 is included in Appendix 4.3.

At the core of this assessment – regardless of whether or not it is illustrative – is the achieved evolution of the structural balance, both at the level of the General Government and the individual governments. In addition, the Section examines - in line with the criteria of the preventive arm of the SGP - both the budget achievements of the past budget year (t-1) and the past two budget years [11].

The reference indicator, used by the Section for the analysis of the results of the General Government, is the structural improvement for 2018 mentioned in the Stability Programme 2018-2021 as approved by the Concertation Committee of 27 April 2018. The structural improvement amounts to 0.06% of GDP. Based on the nominal balance in 2018, the estimate of the cyclical component and the one-shots, the structural balance deteriorated by 0.24% of GDP. This corresponds to a negative deviation of 0.29% of GDP from the reference indicator.

Table 6
Budgetary achievements in 2018 by the General Government compared to the reference indicator used by the Section (% of GDP)

% of GDP	*Achievement*			*Reference indicator*			*Deviation*		
	2017	2018	**Δ2018**	2017	2018	**Δ2018**	2017	2018	**Δ2018**
	(a)	(b)	(c)=(b)-(a)	(d)	(e)	(f)=(e)-(d)	(g)=(a)-(d)	(h)=(b)-(e)	(i)=(c)-(f)
Nominal balance	-0.83%	-0.69%	**0.14%**	-1.03%	-0.98%	**0.05%**	0.20%	0.29%	**0.09%**
Cyclical component	0.02%	0.06%	**0.03%**	-0.39%	-0.17%	**0.22%**	0.41%	0.23%	**-0.19%**
One-shots	0.32%	0.67%	**0.35%**	0.21%	-0.01%	**-0.23%**	0.11%	0.68%	**0.57%**
Structural balance (SB)	-1.18%	-1.41%	**-0.24%**	-0.86%	-0.80%	**0.06%**	-0.32%	-0.61%	-0.29%
Interest expenditure	2.47%	2.25%	**-0.22%**	2.46%	2.31%	**-0.15%**	0.02%	-0.05%	**-0.07%**
Structural primary balance	1.30%	0.84%	**-0.46%**	1.60%	1.51%	**-0.09%**	-0.30%	-0.67%	**-0.36%**

Source: Own calculations based on the Government Accounts 2018 (INA April 2019), FPB Economic Outlook 2019-2024 (June 2019) and Stability Programme 2018-2021 (April 2018), without applying the flexibility clause for 2017.

The evolution of the nominal balance between 2017 and 2018 is slightly better than expected in the Stability Programme (i.e. +0.09% of GDP). As in the previous year, the positive deviation at the level of the nominal balance was wiped out in 2018 by the transition from the nominal to the structural balance approach by correcting for the impact of the cycle and the one-off and temporary factors (in total 0.38% of GDP). The cycle evolved less favourable than expected (impact of -0.19% of GDP on the nominal balance) and the temporary and one-off factors turned out to be larger than expected (impact of +0.57% of GDP on the nominal balance), mainly due to the sharp rise in corporate tax revenue that is considered to be a one-shot.

[11] In accordance with the methodological advice of the Section of January 2016: "Principles of the Section regarding its evaluation assignment under the Cooperation Agreement of 13 December 2013 and determining the significant deviation per contracting party".

Between 2017 and 2018, interest expenditure decreased more than what was expected in the Stability Programme (a decrease of 0.22% of GDP compared to an expected decrease of 0.15% of GDP in the Stability Programme). The structural primary balance remained positive in 2018, but dropped by 0.46% of GDP. The diminished interest expenditure limited the deterioration of the structural balance by around half.

For 2017-2018 considered jointly, an average negative deviation of 0.22% of GDP is observed between the achieved average structural improvement (ΔSB of 0.31% of GDP) and the required average structural improvement (ΔSB of 0.53% of GDP) based on the 2018-2021 Stability Programme.

Table 7
Budgetary achievements in the 2017-2018 period for the General Government
(in % of GDP)

		2017* (a)	2018 (b)	Yearly average 2017-2018 (c)=[(a)+(b)]/2
Achieved ΔSB	(1)	0.86%	-0.24%	**0.31%**
Reference indicator ΔSB	(2)	1.00%	0.06%	**0.53%**
Deviation	**(3)=(1)-(2)**	**-0.14%**	**-0.29%**	**-0.22%**

(*) Results as shown in the Report of July 2018, in accordance with the freezing principle.
Source: Own calculations based on the Government Accounts 2018 (INA April 2019), FPB Economic Outlook 2019-2024 (June 2019) and Stability Programme 2018-2021 (April 2018)

Because the European Commission evaluates the budgetary achievements at the level of the General Government based on the minimum structural improvement (ΔSB) set by the Council of the European Union that is required to achieve the MTO, and the Section uses the adjustment path towards the MTO as stated in the Stability Programme for its illustrative evaluation exercise, differences between the two approaches can occur in the deviations between the achievements and the objectives and therefore also in the comparison of those deviations with the threshold values of 0.50% of GDP for the 1-year deviation and 0.25% of GDP for the average 2-year deviation.