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# Excessive deficit procedure: Council agrees to zero fines and new deadlines for Portugal and Spain

On 8 August 2016, the Council agreed **not to impose fines** on Portugal and Spain for their failure to take effective action to correct their excessive deficits.

It also stepped up the excessive deficit procedure for both countries, setting new correction deadlines and giving notice of **measures to be taken**.

On 12 July 2016, the Council found that neither country had taken effective action to reduce its deficit **below 3% of GDP**, the EU's reference value for government deficits. The Council's decisions triggered sanctions under the excessive deficit procedure, on the basis of article 126(8) of the Treaty on the Functioning of the European Union (TFEU). Fines of up to 0.2% of GDP could be imposed but, following **reasoned requests** from Portugal and Spain, the Commission proposed on 27 July 2016 to cancel the fines. The Council decided on 8 August not to reverse the Commission's proposal.

EU fiscal rules additionally require the Commission to **propose a suspension** of all or part of the EU's structural and investment fund commitments or payments for 2017. The Commission decided however to make the proposal at a later stage, following a structured dialogue with the European Parliament.

The new deadlines set by the Council are based on article 126(9) of the TFEU. **Portugal** is now required to **correct its deficit by 2016** and **Spain by 2018** at the latest. Effective action must be taken by 15 October 2016, and both countries must submit a report by that date.

## Portugal

The Council calls on Portugal to reduce its general government deficit to **2.5% of GDP in 2016**. Portugal must implement consolidation measures amounting to 0.25% of GDP this year. All windfall gains must be used to accelerate deficit and debt reduction, and Portugal must be ready to adopt further measures should budgetary risks materialise.

Fiscal consolidation measures must secure a **lasting improvement** to the government's budgetary balance in a manner conducive to economic growth.

Portugal has been subject to an excessive deficit procedure since December 2009, when the Council issued a recommendation calling for its deficit to be corrected by 2013.

In April 2011 however, after several months of market pressure on its sovereign bonds, Portugal requested **assistance from international lenders**. It obtained a €78 billion package of loans from the EU, the euro area and the IMF. In October 2012, the Council extended the deadline for correcting the deficit by one year to 2014, in the light of the recession in Portugal.

Economic prospects deteriorated further, and the general government deficit reached 6.4% of GDP in 2012. In June 2013, the Council **extended the deadline** for correcting the deficit by another year, to 2015. It set headline deficit targets of 5.5% of GDP for 2013, 4.0% of GDP for 2014 and 2.5% of GDP for 2015.

Portugal exited its economic adjustment programme in June 2014.

However, it **missed the deadline** set by the Council as its general government deficit came out at 4.4% of GDP in 2015. Portugal didn't correct its deficit by 2015 as required, and its fiscal effort fell significantly short of what the Council recommended.

Thanks to policy measures taken in its 2016 budget, Portugal's general government deficit is expected to fall below the 3% of GDP reference value this year. In the light of uncertainties regarding economic and budgetary developments however, the safety margin against breaching the reference value again is narrow. The Council considers therefore that a **credible and sustainable adjustment path** requires Portugal to attain a general government deficit of 2.5% of GDP in 2016.

# Spain

The Council calls on Spain to reduce its general government deficit to 4.6% of GDP in 2016, 3.1% of GDP in 2017 and **2.2% of GDP in 2018**. In addition to savings already foreseen, Spain must implement consolidation measures amounting to 0.5% of GDP in both 2017 and 2018. All windfall gains must be used to accelerate deficit and debt reduction, and Spain must be ready to adopt further measures should budgetary risks materialise.

Fiscal consolidation measures must secure a **lasting improvement** to the government's budgetary balance in a manner conducive to economic growth.

Spain has been subject to an excessive deficit procedure since April 2009, when the Council issued a recommendation calling for its deficit to be corrected by 2012.

In December 2009 however, the Council extended the deadline to 2013. The Commission forecast that Spain's 2009 deficit would reach 11,2 % of GDP, five percentage points more than its previous estimate. In July 2012, the Council extended the deadline for a further year to 2014 on account of renewed **adverse economic circumstances**.

Also in July 2012, the euro area member states agreed to provide up to €100 billion of loans to Spain for the **recapitalisation of its financial services** industry.

In June 2013, the Council found that Spain fulfilled the conditions for extending the deadline for correcting its deficit by a further two years, setting a new deadline of 2016. It set headline deficit targets of 6.5% of GDP for 2013, 5.8% of GDP for 2014, 4.2% of GDP for 2015 and 2.8% of GDP for 2016.

Spain exited the financial sector financial assistance programme in January 2014. It had used close to €38.9 billion of loans for bank recapitalisation, plus around €2.5 billion for capitalising the country's asset management company.

However, general government deficits of 5.9% of GDP in 2014 and 5.1% of GDP in 2015 were above the intermediate targets set by the Council. Moreover, a **relaxation of fiscal policy** in 2015 had a large impact on the country's fiscal outcome that year.

As a consequence, Spain is **not set to correct its deficit** in 2016 as required by the Council in its June 2013 recommendation. Its general government deficit is currently set to amount to 4.6% of GDP in 2016, 3.3% of GDP in 2017 and 2.7% of GDP in 2018, according to the Commission's updated 2016 spring economic forecast. And the country's fiscal effort has fallen significantly short of what the Council recommended.

Granting Spain one additional year to correct its deficit would require a structural balance adjustment that would have too negative an impact on growth. The Council therefore considers it adequate to extend the deadline **by two years**.

The Council considers that a **credible and sustainable adjustment path** requires Spain to achieve general government deficits of 4.6%, 3.1% and 2.2% of GDP in 2016, 2017 and 2018 respectively.

August 2016 decision giving notice to Portugal to take measures to correct its excessive deficit
August 2016 decision on the fine imposed on Portugal for failure to take effective action on its deficit
August 2016 decision giving notice to Spain to take measures to correct its excessive deficit
August 2016 decision on the fine imposed on Spain for failure to take effective action on its deficit
Excessive deficit procedure: Council finds that Portugal and Spain have not taken effective action

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