Italy: Possible Budget scenarios and what they mean

- **Italy's public finance scenarios are very sensitive to the Budget decision that the government will take in September. The 'true' trend scenario for Italy's public finance, i.e. the all-in scenario at unchanged policies, projects a higher and stable deficit at 2.4% of GDP in 2019-2021, with the structural balance that keeps deteriorating. Despite the sharp increase in yield spreads since the March elections, interest expenditure increases only gradually. The debt-to-GDP ratio still declines in the forecast horizon under the assumption of a gradual increase in nominal GDP.**

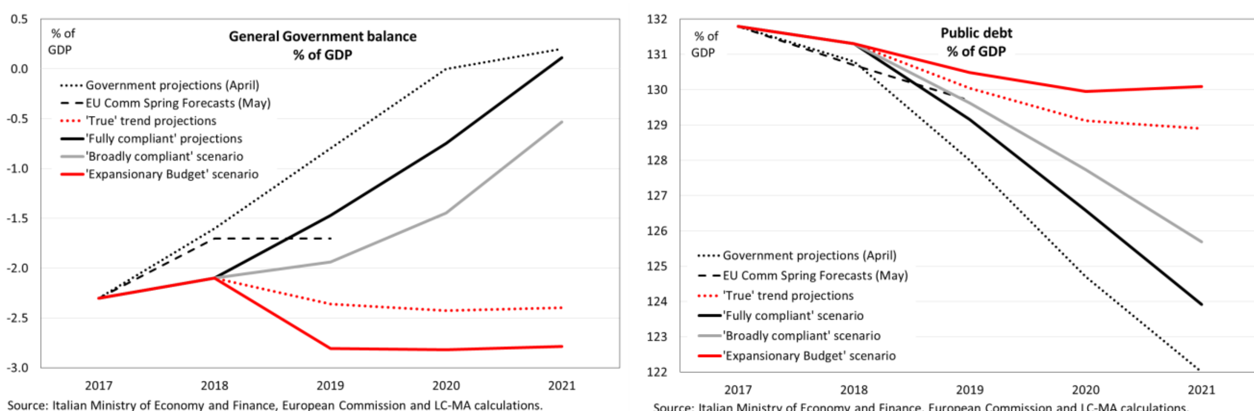
- **The scenario in which Italy fully complies with fiscal rules (probability 5%) would require a structural adjustment of 0.6pp in each of the next three years, with the nominal adjustment close to 1.0% of GDP. This seems politically unfeasible given the electoral promises, although it would probably be the best development for Italy's creditors. More likely (probability 55%), the government will seek to send a goodwill message to Brussels by making a more modest structural adjustment of only 0.1pp of GDP and then trying to work with the Commission to allow it to be broadly consistent with the rules. It would likely be market neutral.**

- **However, there is also a sizeable probability that the Italian government decides to put aside fiscal rules by implementing an expansionary policy, while still maintaining the deficit below the 3.0% threshold (probability 40%). Debt dynamics would not allow a decent decline in the debt-to-GDP ratio and Italy would remain vulnerable to a sudden shift in market sentiment or an economic downturn. Financial markets would not take this positively. The risk of a self-fulfilling prophecy by which spiralling borrowing costs raise sustainability issues, and thus trigger a further market reaction, should not be underestimated.**

Budget debate has started

The first government meeting to discuss the guidelines of the next Italian Budget took place at the beginning of August. Prime Minister Conte, Economy and Finance Minister Tria, European Affairs Minister Savona, undersecretary of the Prime Minister Office Giorgetti and the leaders of the two parties, i.e. Labour Minister Di Maio and Interior Minister Salvini, were all there. The noises coming from Rome were not particularly reassuring to the point that financial markets reacted negatively, at least initially. Yesterday there was another meeting.

Figure 1. Italy's public finance: Budget scenarios



The debate within the government is still in its early stages. At the beginning of September, it will get real. Budget targets will have to be decided by 27 September, with the publication of the Update to the Economic and Financial Document ('Aggiornamento al DEF'), which is an official document with detailed public finance figures and the policy targets. Then, the government will have to send the Draft Budgetary Plan to Brussels by 15 October (mostly taken from the Update), and the actual Budget will be announced by 20 October, with details on the measures. The European Commission will have time until the end of November to issue a non-binding opinion on the Budget. Parliament will make amendments and finally approve it by year-end.

Signs so far have been contradictory, and many figures are floating around, with some of them that do not make sense at all. Minister Tria has consistently tried to send reassuring messages to financial markets (see today's extended interview on Il Sole 24 Ore). In the past, he has not ruled out the possibility of a partial VAT increase to finance Budget plans (without proper action, a safeguard clause would trigger a VAT hike in January 2019), but now he excludes it. More importantly, Tria hinted at freezing any increase in current expenditure in nominal terms (it would be worth up to €10bn), while doing a spending review and a revision of tax expenditures. He also hinted at overreaching tax reform to reduce the tax burden and simplify the system (three task forces are working on taxation, welfare and public investment). However, he also said that the two main policy pledges of the government 'contract', i.e. a sharp reduction in taxation (a two-bracket 'flat tax') and a basic income (the so-called 'citizenship income'), have to be part of the Budget, or at least their first bits. The promised rolling back of the pension reform, apparently, will also be part of the Budget.

The political leaders are sending contradictory statements as well. On the one hand, they keep saying that the government will comply with fiscal rules. On the other, they say that fiscal rules are not taboo, and even that the 3.0% threshold "is not the Bible". At the same time, the unravelling of pro-growth reforms started with this week's final approval by Parliament of the 'Dignity Decree', which reduces flexibility in the labour market and will likely have some budgetary consequences as well. Therefore, the strategy of the government is still far from clear, and September will become the 'moment of truth'. This note tries to depict possible scenarios and their related probabilities.

Starting position and assumptions

The starting position of the analysis is the public finance projections published by the previous government on 26 April 2018. As the parties supporting the previous government lost the elections, the old government decided to present only 'trend' projections, correctly leaving policy targets to the new government. On top of official projections, I use European Commission forecasts for potential output and the output gap, as they are the ones that count for the compliance assessment. I adjust both potential output and the output gap to take into account the downward revision in GDP growth and policy measures in each scenario. The original forecasts by the Italian government and the European Commission are in the Appendix.

I made a number of technical assumptions broadly in line with the official ones for simplicity. For instance, in the debt projections, I assumed that the government cashes the expected privatisation amounts. However, the recent political signs do not bode well for the privatisation process. Moreover, I have also applied the stock-flow adjustment on the debt indicated by the Italian Treasury. Nevertheless, a few items need to be added, thereby worsening the trend scenario substantially.

Adding what is missing

First, the so-called 'unchanged legislation vs current policies gap' is missing from the official trend scenario. These are expenditures that most likely will be incurred, but legally the government cannot put in official documents. Typically, these include expenditure whereby no commitment can be taken in advance, such as peacekeeping missions abroad (it would imply that they are not effective in bringing peace). However, they are perceived to be 'mandatory' expenditures to be financed year by year. They amount to about €3.5bn per year, i.e. 0.2% of GDP.

Then, there are the safeguard clauses. If there are no spending cuts by year-end or other types of financing, VAT (and some excise taxes) will go automatically up, as it is already legislated. For 2019, the increase amounts to €12.4bn, i.e. 0.7% of GDP. For 2020, there is an extra amount of €7.4bn, i.e. 0.4% of GDP. Safeguard clauses were introduced in the past to make a reduction in spending binding. In order to avoid the triggering of the

nasty increases in VAT indicated in the safeguard clauses and already legislated, the government had to come up with extra financing from the expenditure side. The original rationale of these clauses has been lost, however, as the budget financing has come from all over the places (and especially savings in the financing of the debt due to lower interest rates). All political forces want to avoid an increase in VAT, including the two supporting the current government, and thus the fact that it is legislated does not count much. De facto, these amounts need to be financed. Therefore, it is more appropriate to net them out from fiscal projections. The Treasury clearly cannot do it, as it would mean denying the validity of the law, but the European Commission in its Spring Forecasts did it.

Moreover, since April, the economic outlook has significantly changed. Back in April, the Italian government put as baseline projections 1.5% GDP growth for the current year, 1.4% for next year, and then 1.3% and 1.2% for 2020 and 2021 respectively. The European Commission was at 1.5% for 2018 and 1.2% for 2019. Since then, trade wars have become a much more significant concern, and economic activity slowed in Europe and Italy. 1Q18 GDP was a meagre 0.3% qoq, and 2Q18 (preliminary) was just 0.2% qoq. The latest Consensus Economics projections called for 1.2% GDP growth for the current year and 1.1% for next year (Eurozone Barometer forecasts are slightly higher). The IMF is at 1.2% and 1.0% for 2018 and 2019 respectively, while the OECD is at 1.4% and 1.1%. Minister Tria in today's interview suggested 1.2% GDP growth this year and 1.0-1.1% next year. My forecasts are broadly in line with consensus at 1.1% in 2018 and 2019 and 1.0% in 2020 and 2021.

Moreover, the government overstated the deflator of GDP, as it took into account VAT increases that are not likely to materialise. Overstating the deflator and thus nominal growth helps the debt dynamics. By lowering the real and nominal growth profile, all other variables have to change. Moving from 1.5% to 1.1% in the current year increases the deficit by 0.22pp, but then it cumulates with the estimated gap next year to give an impact of 0.43pp in 2019, according to my estimates.

Borrowing costs as a percentage of GDP go up only gradually

Finally, the Treasury made interest rate assumptions based on forward yield curves prevailing in the first half of April. Since then, yields have changed substantially. The 10-year constant-maturity government bond yield spread vs Germany has moved from 1.31% in the first half of April to 2.04% on average between April and early August, with closing at 2.59% yesterday. The same story for the 2-year constant-maturity government bond yield spread at 0.36%, 1.14% and 1.62% respectively. Assuming the level of spreads stays the same and taking into account today's forward curves, it increases the projections for interest expenditure by 0.08pp in 2018, 0.24pp in 2019, 0.41pp in 2020, 0.54pp in 2021, according to my estimates. At regime, interest expenditure as a percentage of GDP increases by 1.7pp. In the scenarios, I make the strong assumption that government yield spreads stay unchanged, while German yields go up according to forward curves. At the end of each scenario, I add a qualitative assessment for possible financial market reactions, without including them in the estimates.

Making all the above adjustments and taking into account all the feedback effects result in the 'true' trend projections, i.e. what would be the budget outcome if the government does not introduce any policy change.

Table 1. Italy's public finance: 'true' trend projections

	2017	2018	2019	2020	2021
Real GDP, % yoy growth	1.5	1.1	1.1	1.0	1.0
Nominal GDP, Euro bn	1716.9	1758.4	1802.6	1847.9	1898.1
Output gap, % potential GDP	-1.2	-0.5	0.2	0.7	1.2
General government balance, % GDP	-2.3	-2.1	-2.4	-2.4	-2.4
Primary balance, % GDP	1.5	1.5	1.4	1.5	1.6
Interest expenditure, % GDP	-3.8	-3.6	-3.7	-3.9	-4.0
Structural balance, % GDP	-1.7	-1.9	-2.4	-2.7	-3.0
Change in the structural balance, yoy	-0.2	-0.3	-0.4	-0.3	-0.3
Public debt, % GDP	131.8	131.3	130.0	129.1	128.9

Source: Italian Ministry of Economy and Finance, European Commission and LC-MA estimates.
[1] Cyclically-adjusted and net of one-offs. [2] Gross of support to other Eurozone countries and payment in arrears of the public administration.

A modest decline in the debt-to-GDP ratio and only a gradual rise in interest expenditure

The good news is that by doing nothing, the debt-to-GDP ratio would still slightly decline. However, this is on the assumption that GDP growth slows only marginally in the forecast horizon and that the GDP deflator gradually rises, supporting nominal GDP growth and allowing benign debt dynamics. Should real and nominal GDP slow substantially, Italy's debt position would immediately become problematic. In other words, Italy is one recession away from severe sustainability issues.

Another piece of good news is that the near-term impact of the sharp rise in the BTP-Bund yield spread recorded since March will have only a very gradual impact over time, given the relatively long average maturity of the debt. Moreover, even with recent increases, interest expenditure as a percentage of GDP still declines in 2018 relative to 2017. This is due to the averaging process of the cost of new issuance relative to the average cost of outstanding bonds. However, the assumption — indeed a very strong assumption — is that the spread remains unchanged versus current levels. Should confidence vanish and the spread widen substantially, the cost of servicing the debt would rise much more significantly in 2019, and long-term debt dynamics would become problematic.

The slowdown in the economy does not change the required adjustment

The projected slowdown in the economy relative to end-of-April official projections worsens public finances. The preventive arm of the Stability and Growth Pact defines fiscal rules in structural terms, i.e. cyclically adjusted and net of one-offs. The cyclical adjustment for 2018 increases due to the slowdown relative to April projections, while the structural deficit should remain unchanged (barring some minor effects due to the revision of potential output and other technical factors). However, the required structural adjustment of 0.6pp for 2019-2021 stays the same.

In fact, the output gap would remain within the -1.5/+1.5% range, which is defined as 'normal times' whereby a high-debt country (>60% or sustainability risk) would still have to deliver a minimum structural adjustment of 0.6pp. This is to say that even a moderate slowdown in the economy in 2019 would not change the required structural adjustment. According to the rules, it would remain 0.6pp in 2019 and after that, until Italy reached its medium-term objective of a balanced budget.

High risk of Italy entering Excessive Deficit Procedure in 2019

Italy would be at high risk of entering Excessive Deficit Procedure (EDP) due to its performance in 2018. According to my estimates, Italy's structural balance would not improve at all over the forecast horizon in the 'true' trend scenario. It would move from -1.7% in 2017 to -3.0% in 2021, while the nominal balance would stabilise at -2.4%.

In 2018, the structural deficit is likely to worsen by 0.3pp relative to 2017, on top of the 0.2pp deterioration recorded in the previous year. This compares with the promised correction of 0.3pp for 2018 (i.e. a 0.6pp deviation), following an arbitrary rebate allowed by the Commission last year (so-called 'marginal discretion' which brought the required adjustment from 0.6pp to 0.3pp). It would be more than enough to qualify it as a 'significant deviation'. The Commission would deem Italy as non-compliant in the spring of 2019, once final figures for 2018 become available. The Eurogroup/Ecofin would then push Italy into EDP, i.e. in the corrective arm of the Pact. This would not be a disaster as many other countries have gone through that. Politically, the government could manage the media impact of the stigma. In the corrective arm, it would be somewhat easier to find some flexibility in the rules once targets become nominal instead of structural. From a financial market point of view, there would be some extra reassurance of close monitoring by European institutions. Still, managing to remain in the preventive arm would be preferable, although the current government explicitly stated that there is no intention to do anything to correct this year's budget trends.

The government decision on the fiscal targets for 2019 and beyond will come much earlier than the Eurogroup/Ecofin's discussion on the EDP in the spring of 2019, however. What is the government strategy likely to be?

'Fully compliant' scenario: probability 5%

If Italy wants to be fully compliant with European and domestic fiscal rules (the latter being almost a mirror image of the European ones) has to adjust its structural fiscal balance by 0.6pp in 2019, 2020 and 2021, to reach a close-to-balance budget at the end of the forecast horizon. In nominal terms, this would translate into 1.0pp 0.9pp, 0.9pp adjustment for the next three years, i.e. €18.7, €17.2 and €17.7bn respectively.

The headline deficit would go down from an estimated 2.1% in 2018 (relative to the 1.6% original target) to 1.5% in 2019, 0.7% in 2020 and a surplus of 0.1% in 2021. The structural balance would be close to zero as well in 2021. Assume that the government delivers €5.0bn extra spending for pensions, as promised in the 'contract', and puts on the table only €3.0bn for tax reductions and €3.0bn for active labour market policies (the start of the process for citizenship income). The total would add up to €11bn, which together with the adjustment needed to comply with the rules would make the financing needs close to €30bn.

Needless to say that the sharp budgetary correction is somewhat negative for GDP growth in the near term, with negative feedback on public accounts. My estimates include historical sensitivities of economic growth to fiscal consolidation, but the devil is in the detail. The impact could be much higher or much lower depending on the type of correction and the timing of the impact. In this scenario, the debt-to-GDP ratio reaches 123.9% in 2021.

I think such a scenario would be taken positively by financial markets, with the government yield spread vs Germany likely to gradually narrow back to the levels prevailing before elections (although, as mentioned, this effect is not included in the table).

Table 2. 'Fully compliant' scenario: probability 5%

	2017	2018	2019	2020	2021
Real GDP, % yoy growth	1.5	1.1	0.8	0.7	0.8
Nominal GDP, Euro bn	1716.9	1758.4	1796.0	1834.4	1878.7
Output gap, % potential GDP	-1.2	-0.5	-0.1	0.2	0.5
General government balance, % GDP	-2.3	-2.1	-1.5	-0.7	0.1
Primary balance, % GDP	1.5	1.5	2.3	3.2	4.2
Interest expenditure, % GDP	-3.8	-3.6	-3.7	-3.9	-4.0
Structural balance, % GDP	-1.7	-1.9	-1.3	-0.7	-0.1
Change in the structural balance, yoy	-0.2	-0.3	0.6	0.6	0.6
Public debt, % GDP	131.8	131.3	129.2	126.6	123.9
Budget adjustment, % GDP			1.0	0.9	0.9
Budget adjustment, Euro bn			18.7	17.2	17.7
Cumulative Budget adjustment, % GDP			1.0	2.0	2.9
Cumulative Budget adjustment, Euro bn			18.7	35.9	53.6

Source: Italian Ministry of Economy and Finance, European Commission and LC-MA estimates.
[1] Cyclically-adjusted and net of one-offs. [2] Gross of support to other Eurozone countries and payment in arrears of the public administration.

'Broadly compliant' scenario, with some muddling through: probability 55%

The planning document is usually an acrobatic attempt to square the circle. It is indeed not easy to defuse the safeguard clauses introduced in the past, respond to increased spending needs for the citizenship income project and then find the necessary resources for the cuts in taxation announced by the two parties supporting the government.

In the interpretation of the rules, Brussels has become softer and more inclined to avoid severe fiscal tightening, as we have seen in the past. However, given that Italy has exhausted all the margins of flexibility, including the Commission's subjective rebate of 0.3pp for the 2018 structural adjustment, it will be difficult to find any extra leeway. If the government manages to convince the Commission that the citizenship income is a structural reform (maybe by approaching the issue through active labour market policies), it could obtain some fresh margins. Also, the likely rebound in public investment due to the depressed levels of 2016-2017 (related to the

teething problems of the public procurement reform) may also grant some extra margins, although only for the delta in spending for projects co-financed by EU Structural/Cohesion Funds. The room appears therefore limited, but experience tells that there is no limit to creativity in the interpretation of the rules if there is political will.

Given the populist spin of the new Italian government and the confrontational stance towards the EU in different areas (e.g. immigration, infrastructure investment), the political appetite for granting some extra flexibility to Italy is close to zero. However, it is also true that the Commission is at the end of its mandate (up until European elections in May 2019) and thus the appetite for picking a fight with Italy may be low as well.

In this scenario, the government puts on paper the minimum structural adjustment necessary to claim goodwill and work on possible agreed flexibility with the Commission. Given the experience of the past, this minimum structural adjustment is 0.1pp, which translates into a nominal adjustment of 0.5pp, i.e. €9.7bn. The headline balance moves from 2.1% in 2018 to 1.9% in 2019. The structural adjustment would increase in the following years, i.e. 0.3pp in 2020 and 0.6pp in 2021.

Table 3. 'Broadly compliant' with some muddling through: probability 55%

	2017	2018	2019	2020	2021
Real GDP, % yoy growth	1.5	1.1	0.9	0.9	0.9
Nominal GDP, Euro bn	1716.9	1758.4	1797.1	1838.6	1885.8
Output gap, % potential GDP	-1.2	-0.5	0.0	0.3	0.7
General government balance, % GDP	-2.3	-2.1	-1.9	-1.4	-0.5
Primary balance, % GDP	1.5	1.5	1.8	2.5	3.5
Interest expenditure, % GDP	-3.8	-3.6	-3.7	-3.9	-4.0
Structural balance, % GDP	-1.7	-1.9	-1.8	-1.5	-0.9
Change in the structural balance, yoy	-0.2	-0.3	0.1	0.3	0.6
Public debt, % GDP	131.8	131.3	129.6	127.7	125.7
Budget adjustment, % GDP			0.5	0.6	0.9
Budget adjustment, Euro bn			9.7	11.8	17.7
Cumulative Budget adjustment, % GDP			0.5	1.2	2.1
Cumulative Budget adjustment, Euro bn			9.7	21.5	39.2

Source: Italian Ministry of Economy and Finance, European Commission and LC-MA estimates.
[1] Cyclically-adjusted and net of one-offs. [2] Gross of support to other Eurozone countries and payment in arrears of the public administration.

'Expansionary Budget' scenario, with deficit remaining below the 3.0% threshold: probability 40%

Italy deliberately does not comply — or attempts to comply — with the rules in this scenario. The fiscal expansion, however, would be limited to 0.5% of GDP and only for the first year (leaving the decision to do the rest for the following years). This limited expansion would be enough to claim that the government has delivered on promises. The overall size of the budget would be larger than the nominal expansion of 0.5% of GDP. The government would finance the extra part with other measures, and thus the overall amount available for government policies would be larger.

In this scenario, the deficit-to-GDP ratio stabilises at 2.9%, just below the 3.0% threshold. The structural balance increases to 3.5% in 2021. The fiscal stance remains expansionary throughout the forecast horizon, if measured on the metric of the structural balance. The debt-to-GDP ratio declines only marginally. The primary balance remains above 1.0% of GDP. The near-term economic impact is marginally favourable.

This scenario would imply that the government runs into problems with the various domestic and EU check-and-balances. The Parliamentary Budget Office would not endorse the projections, and President Mattarella may veto the Budget. The Court of Auditors and the Constitutional Court may eventually have their say as well. The European Commission may flatly reject the Budget. All these steps may take a while before they can translate into action and real change in policies. Please note that Italy is a Parliamentary democracy and thus Parliament tends to have the final word, within limits set by the Constitution.

In the meantime, the reaction by bond vigilantes would come much earlier. In this scenario, the government bond yield spread may well further widen. Actual and expected higher costs for servicing the debt would impinge on debt sustainability and risk putting Italy in a self-fulfilling crisis scenario.

Table 4. 'Expansionary Budget' scenario, with deficit remaining below the 3.0% threshold: probability 40%

	2017	2018	2019	2020	2021
Real GDP, % yoy growth	1.5	1.1	1.2	1.1	1.0
Nominal GDP, Euro bn	1716.9	1758.4	1804.4	1851.6	1901.9
Output gap, % potential GDP	-1.2	-0.5	0.3	0.9	1.4
General government balance, % GDP	-2.3	-2.1	-2.8	-2.8	-2.8
Primary balance, % GDP	1.5	1.5	0.9	1.1	1.3
Interest expenditure, % GDP	-3.8	-3.6	-3.7	-3.9	-4.0
Structural balance, % GDP	-1.7	-1.9	-2.9	-3.2	-3.5
Change in the structural balance, yoy	-0.2	-0.3	-0.9	-0.3	-0.3
Public debt, % GDP	131.8	131.3	130.5	129.9	130.1
Budget adjustment, % GDP			-0.5	0.0	0.0
Budget adjustment, Euro bn			-9.0	0.0	0.0
Cumulative Budget adjustment, % GDP			-0.5	-0.5	-0.5
Cumulative Budget adjustment, Euro bn			-9.0	-9.0	-9.0

Source: Italian Ministry of Economy and Finance, European Commission and LC-MA estimates.
[1] Cyclically-adjusted and net of one-offs. [2] Gross of support to other Eurozone countries and payment in arrears of the public administration.

Bottom line: it does not take much for Italy to move into a self-fulfilling crisis scenario

I tried to present internally consistent scenarios for the next Italian Budget. The announcement of the fiscal strategy will be a 'moment of truth' for financial markets, and may well make for the difference between a virtuous cycle of fiscal consolidation and a spiralling self-fulfilling disaster.

First, the 'true' trend scenario for Italy's public finance is different from the scenario presented back in April by the previous government. The all-in 'true' trend scenario projects a higher and stable deficit at 2.4% of GDP in 2019-2021, with the structural balance widening to 3.0% of GDP in 2021. Despite the sharp increase in spreads since the March elections, interest expenditure as a percentage of GDP increases only gradually. Under this scenario, the debt-to-GDP ratio would still decline under the assumptions of some moderation in economic growth and gradual rise of the GDP deflator.

The scenario in which Italy fully complies with fiscal rules would require a structural adjustment of 0.6pp in each of the next three years, with the nominal adjustment close to 1.0% of GDP. This seems politically unfeasible given the electoral promises, although it would probably be the best possible development for Italy's creditors. More likely, the government will seek to send a goodwill message by making a more modest structural adjustment of only 0.1pp of GDP and then trying to work with the Commission to allow it to be broadly consistent with the rules. It would likely be market neutral. There is a sizeable probability that the Italian government decides to put aside fiscal rule by implementing an expansionary fiscal policy, while still maintaining the deficit below the 3.0% threshold. Debt dynamics would not allow a decent decline in the debt-to-GDP ratio and Italy would remain vulnerable to a sudden shift in market sentiment or an economic downturn. Financial markets would not take it positively.

Having not included possible financial market reactions in the scenarios make for the possibility of more extreme developments. The point is that it only takes small changes in the scenarios to make them virtuous or explosive. The risk of a self-fulfilling prophecy by which the spiralling borrowing costs raise sustainability issues, and thus trigger a further financial market reaction, should not be underestimated.

Appendix

Table 5. Official public finance projections published on 26 April

	2017	2018	2019	2020	2021
Real GDP, % yoy growth	1.5	1.5	1.5	1.4	1.3
Nominal GDP, Euro bn	1716.9	1766.2	1822.6	1878.2	1928.7
Output gap, % potential GDP	-2.2	-1.3	-0.6	-0.2	0.2
General government balance, % GDP	-2.3	-1.6	-0.8	0.0	0.2
Primary balance, % GDP	1.5	1.9	2.7	3.4	3.7
Interest expenditure, % GDP	-3.8	-3.5	-3.5	-3.5	-3.5
Structural balance, % GDP	-1.1	-1.0	-0.4	0.1	0.1
Change in the structural balance, yoy	-0.2	0.1	0.6	0.5	0.0
Public debt, % GDP	131.8	130.8	128.0	124.7	122.0

Source: Italian Ministry of Economy and Finance.
[1] Cyclically-adjusted and net of one-offs. [2] Gross of support to other Eurozone countries and payment in arrears of the public administration.

Table 6. EU Commission Spring Forecasts

	2017	2018	2019	2020	2021
Real GDP, % yoy growth	1.5	1.5	1.2	n.a.	n.a.
Nominal GDP, Euro bn	1716.9	1766.2	1822.6	n.a.	n.a.
Output gap, % potential GDP	-1.2	-0.1	0.5	n.a.	n.a.
General government balance, % GDP	-2.3	-1.7	-1.7	n.a.	n.a.
Primary balance, % GDP	1.5	1.9	1.7	n.a.	n.a.
Interest expenditure, % GDP	-3.8	-3.6	-3.5	n.a.	n.a.
Structural balance, % GDP	-1.7	-1.7	-2.0	n.a.	n.a.
Change in the structural balance, yoy	-0.3	0.0	-0.3	n.a.	n.a.
Public debt, % GDP	131.8	130.7	129.7	n.a.	n.a.

Source: European Commission.
[1] Cyclically-adjusted and net of one-offs. [2] Gross of support to other Eurozone countries and payment in arrears of the public administration.

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