The MFAC welcomes the improved compliance with the SGP requirements when considering that the DBP for 2015 had been judged by the COM as 'at risk of non-compliance' with the SGP. Indeed, at that time the COM had anticipated a significant deviation from the adjustment path towards the MTO in 2015, whilst highlighting that according to their forecast, the structural effort for 2014 was far from that recommended (by the COM), and a slight risk of compliance with the debt rule was also the case.

Box 4: The COM's opinion on the overall compliance of the DBP with the SGP

The COM's assessment of a country's DBP generally concludes with three possible statements:

Compliant: there is no need to amend the budgetary plans within the national budgetary procedure to ensure compliance with the SGP rules;

Broadly Compliant: authorities need to take the necessary measures within the national budgetary process to ensure compliance with the SGP. Specifically: *for Member States in the EDP*: the headline deficit target is projected to be achieved but the projected fiscal effort falls short of that recommended by the COM; *for Member States under the preventive arm of the SGP*: the respective DBP may result in some deviation from the MTO or the adjustment path towards it and is in compliance with the debt reduction benchmark, if applicable.

Risk of non-compliance: the respective DBP would not be expected to comply with the SGP requirements. The COM would thus require the authorities to take the necessary measures within the national budgetary process to make sure that the 2016 budget would comply with the SGP. Specifically: f*or Member States in EDP*: the COM's forecast for 2016, if confirmed ex post, could lead to the stepping up of the EDP as neither the recommended fiscal effort nor the recommended headline deficit target is forecast to be achieved; f*or Member States under the preventive arm of the SGP:* the COM's forecast projects a significant deviation from the MTO or the required adjustment path towards the MTO in 2016 and/or non-compliance with the debt reduction benchmark, if applicable.

The COM has not judged any of the Member States to be in a situation of serious non-compliance with the SGP. Malta, together with a number of other countries was judged to be 'broadly compliant'. [50]

[50] Source: '2016 Draft Budgetary Plans: Overall Assessment', available on: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/dbp/2015/communication_to_euro_area_member_states_2015_dbp_en.pdf

Table 10: Compliance with the SGP requirements – euro area countries[51]

Commission Opinion on compliance of 2016 DBPs with SGP	Member State in preventive or corrective arm
Compliant	
Germany	Preventive arm
Estonia	Preventive arm
Luxembourg	Preventive arm
Netherlands	Preventive arm
Slovakia	Preventive arm
Broadly Compliant	
Belgium	Preventive arm
Latvia	Preventive arm
Malta	Preventive arm
Finland	Preventive arm
Ireland	Corrective arm
France	Corrective arm
Slovenia	Corrective arm
At risk of non-compliance	
Italy	Preventive arm
Lithuania	Preventive arm
Austria	Preventive arm
Spain	Corrective arm

Source: European Commission

7. The MFAC's evaluation of the budgetary stance

A sound budgetary policy requires that the conduct of fiscal policy satisfies three criteria: being counter-cyclical; being sustainable and being stable. Fiscal policy is meant to 'lean against the wind', boosting aggregate demand (being expansionary) when the economy is operating below potential and vice versa. However, the effectiveness of such policy presupposes that the trajectory for the public debt, when expressed as a percentage of GDP remains within sustainable levels.[52] Such considerations underpin the SGP limits for the fiscal deficit and debt ratios within the European context. However, apart from limiting fiscal imbalances, economic theory suggests that it is beneficial for a country to maintain stable tax rates over time as this reduces the economic distortions (excess burden) associated with frequent changes in taxation.[53]

[51] Cyprus and Greece do not need to submit draft budgetary plans because they are currently subject to macroeconomic adjustment programmes, while Portugal did not submit its DBP by the stipulated date.
[52] GDP serves as a proxy for the repayment capabilities of the Government.
[53] For an early exposition of this idea see Barro (1979), "On the determination of the public debt", The Journal of Political Economy, Volume 87, Number 5.