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COMMUNICATION FROM THE COMMISSION

Assessment of action taken by THE UNITED KINGDOM

in response to the Council Recommendation of 19 June 2015 with a view to bringing an end to the situation of excessive government deficit

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1. INTRODUCTION

On 19 June 2015, the Council issued a recommendation to the United Kingdom under Article 126(7) of the Treaty, with a view to bringing an end to the excessive deficit situation by 2016-17. The United Kingdom was recommended to reach a headline deficit of 4.1% of GDP in 2015-16 and of 2.7% of GDP in 2016-17. Based on the macroeconomic forecast underlying the Council recommendation, this was considered consistent with an improvement in the structural balance of 0.5% of GDP in 2015-16 and 1.1% in 2016-17. The Council did not require additional measures other than those already incorporated into all the UK government budgets and autumn statements up to and including the 2015 budget.

In accordance with Article 3(4a) of Council Regulation (EC) No 1467/97, the Council established the deadline of 15 October 2015 for the UK to report in detail on action taken on its consolidation strategy. At the established deadline, the UK authorities submitted a report to the Commission highlighting the measures taken to achieve the targets set by the Council.

The Commission has examined the budgetary strategy of the UK, based on the information included in the report on action taken and the economic forecast of the Office for Budget Responsibility (OBR), in order to assess whether the UK has complied with the Council recommendation of 19 June 2015.

2. MEASURES INCLUDED IN THE REPORT ON ACTION TAKEN AND UPDATED BUDGETARY PROJECTIONS

The report on action taken confirms the budgetary strategy outlined in the summer budget which aims to correct the excessive deficit by 2016-17, the deadline set by the Council. The report does not include new measures since the budget of the new government, published on 8 July. However, it presents an overview of the measures that conform to the Council recommendation of 19 June 2015. Even though the recommendation did not require additional measures to bring the excessive deficit to below 3% of GDP, further measures were announced in the budget to decrease the deficit more decisively in 2016-17, with GBP 5 billion (0.25% of GDP) of welfare savings and GBP 1 billion (0.05% of GDP) of net tax increases.

The bulk of the improvement owing to the welfare savings in 2016-17 stem from a reduction in income thresholds in tax credits and work allowances in Universal Credit (GBP 2.9 billion) and an increase in the tax credits taper rate to 48% (GBP 1.5 billion). The main new tax measure presented in the budget is an increase in the insurance premium tax from 6% to 9.5%. This takes effect from 1 November 2015 hence part of this is attributable to 2015-16 and the remainder to 2016-17; GBP 0.5 billion and GBP 1 billion, respectively.

In light of the information provided in the report on action taken, the Commission 2015 autumn forecast projects the general government deficit to fall to 3.9% of GDP in 2015-16 and to 2.4% of GDP in 2016-17, below the headline target deficits of 4.1% and 2.7% of GDP, respectively, set out in the Council recommendation.

Risks to the budgetary outlook for 2015-16 and 2016-17, as projected in the Commission 2015 autumn forecast, appear balanced overall barring some implementation risks. While no major expenditure slippages are expected, economic performance is exposed to both positive and negative risks. On the one hand stronger-than-expected investment could imply higher growth, while on the other hand a strong currrency could curtail exports more than expected.

3. ASSESSMENT OF ACTION TAKEN

Based on the information submitted in the report on action taken, the Commission autumn forecast projects a headline deficit of 3.9% of GDP in 2015-16 and 2.4% in 2016-17, below the targets set by the Council. The adjustment in the structural balance is also expected to exceed the Council recommendation in both years.

The improvement in the structural balance stemming from the Commission 2015 autumn forecast amounts to 0.7% of GDP in 2015-16 and 1.3% in 2016-17, above the effort of 0.5% of GDP and 1.1% of GDP, respectively, recommended by the Council.

As the headline targets and the adjustment in the structural balance recommended by the Council are expected to be met in 2015-16 and 2016-17, a careful analysis of the fiscal effort is not necessary. Indeed, based on the agreed methodology, combined compliance with the headline deficit target and the underlying improvement in the structural balance is sufficient to determine that effective action in response to the Council recommendation has been delivered.

Table 1. Comparison of budgetary projections

% of GDP	Headline budget balance		Adjustment in the structural balance	
	2015-16	2016-17	2015-16	2016-17
Commission 2015 autumn forecast	-3.9%	-2.4%	0.7%	1.3%
Report on action taken	-4.0%	-2.3%	*0.7%*	*1.5%*
Baseline scenario (updated 2015 spring forecast)*	-4.1%	-2.7%	0.5%	1.1%
EDP target	-4.1%	-2.7%	0.5%	1.1%

Notes:

*Scenario underpinning the Council Recommendation of 19 June 2015

4. CONCLUSIONS

The report on action taken submitted by the United Kingdom on 19 October 2015 confirms the plan of the UK government to correct the excessive deficit by 2016-17, the deadline set by the Council, and provides details on the measures underpinning the budgetary strategy. Additional measures were not necessary to comply with the Council recommendation, however, extra measures were announced at the July budget, which are also included in the report on action taken.

Overall, based on the information available, the general government deficit is expected to reach 3.9% of GDP in 2015-16 and 2.4% in 2016-17, in line with the targets recommended by the Council on 19 June 2015. The improvement in the structural balance, as estimated by the Commission based on the autumn forecast of 0.7% of GDP in 2015-16 and 1.3% of GDP in 2016-17, also appears in line with the targets of 0.5% of GDP and 1.1% of GDP, respectively. According to the methodology for assessing effective action, as the UK is compliant with the headline deficit targets and the underlying improvements in the structural balance as recommended over both 2015-16 and 2016-17, the Commission considers that the procedure be put in abeyance.