Eurogroup

Brussels, 23 November 2015

Eurogroup Statement on the Draft Budgetary Plans for 2016

The close coordination of Member States' fiscal policies significantly contributes to the strength and cohesion of the euro area. This cohesion and appreciation of common challenges is all the more important when policy-making is confronted by major challenges and uncertainty such as now following the events in Paris. As required by the Two-Pack Regulation on the strengthening of budgetary monitoring, Member States have submitted Draft Budgetary Plans (DBPs) for 2016 and the Commission has provided in-depth assessments and Opinions on these. We broadly concur with the Commission's opinions and analysis.

The economic climate in the euro area is gradually improving, although investment remains subdued and the recovery is vulnerable to the increasing turbulence in the global economy. Years of fiscal consolidation have brought down government deficits in the euro area. The government deficit ratio for the euro area as a whole peaked at 6.3% of GDP in 2009. From 2.0% of GDP in 2015, the ratio is expected to fall further, to 1.7% of GDP in 2016. Based on the autumn forecast, the number of Member States in the corrective arm would therefore be projected to fall from a high of 15 in 2010 to 3 in 2016. As a result, the aggregate debt-to-GDP ratio has started to decline this year and should be brought on a declining path in line with the debt rule. Given the still high debt levels as well as the challenges of an ageing society, fiscal consolidation must continue in a growth friendly and differentiated manner to ensure sustainability.

Interest expenditures in the euro area have fallen by over 1.5Pps of GDP over recent years. Recent Eurogroup meetings have stressed the need for prudent fiscal policies to build resilience for when interest rates inevitably rise again.

The Commission's forecast indicates a broadly neutral planned fiscal stance for the euro area as a whole in 2016. In line with the Commission analysis, this reflects a balance between long-term fiscal sustainability and short-term macroeconomic stabilisation, particularly in light of historically low interest rates and the high external surplus of the euro area. At the same time, the Commission assessment of the individual budgetary plans shows an uneven distribution, with four Member States at risk of not meeting their current obligations under the Stability and Growth Pact (SGP) in 2016, and others outperforming their MTO. The SGP provides significant flexibility to adjust fiscal policy to developments in Member States. The current refugee crisis is one such development and we take note that the Commission will take into account duly justified additional expenditure related to this crisis when making its ex post assessments of compliance with the Stability and Growth Pact. We note that Austria, Belgium, Finland, Germany and Italy have submitted information on the costs associated with refugee inflows. We also take note that the Commission is applying the approach to flexibility set out in its January 2015 Communication and that it will consider Member States' fulfilment of the related eligibility conditions, together with the other relevant factors, when assessing compliance with the preventive arm of the SGP in spring 2016. In this respect, we recall the ongoing discussions among the Member States and the Commission on a commonly agreed interpretation on the flexibility within the SGP.

The quality of public finances can be enhanced by further refocusing budgets on investment and other expenditure and revenue categories that contribute to potential growth. A key aspect of the quality of public finances for the Eurogroup is labour taxation. Reducing the burden of labour taxation has the potential to boost growth and support employment. Building on common principles guiding euro area Member States' reforms to reduce this burden, the Eurogroup has agreed to benchmark the tax wedge on labour. The draft budgets show that many Member States are planning or implementing measures to reduce the tax burden on labour, with sizeable reforms in Member States with comparatively high labour taxes such as Austria, Belgium and France. However, the challenge is sizeable and further progress in many Member States would help to improve growth and employment outcomes.

As background to the assessment of the 2016 DBPs, we have taken stock of the implementation of the 2015 DBPs. We welcome that the number of Member States at risk of non-compliance with the SGP has steadily decreased over the course of the year. In December 2014, seven Member States were assessed to be at risk of non-compliance. When we followed up on DBP implementation in March, only five Member States were assessed to be at risk. Now, based on the Commission's Autumn Forecast, Spain is not projected to meet its nominal EDP target in 2015. A timely and durable correction of the excessive deficits of Slovenia and Portugal is projected, but the safety margin to the 3% reference value is limited. On debt rule compliance for Belgium and Italy, we note that at this juncture the Commission still refers to its February 2015 report. Any non-compliance in 2015 will be addressed further on the basis of the April 2016 Eurostat validated data.

For 2016, the Eurogroup takes note that no draft budgetary plan was found in serious non-compliance with the obligations of the SGP and that consequently no resubmission of a DBP was requested by the Commission.

We regret that Portugal has not submitted a DBP and call on Portugal to submit a DBP targeting compliance with SGP requirements, as soon as possible. In the absence of a DBP, the Commission forecasts that Portugal is set to correct the excessive deficit in 2015 and move to the preventive arm in 2016, in which significant additional structural effort would be required to ensure adequate progress towards the MTO and towards reducing the high level of debt.

We also recall that Cyprus and Greece were not assessed today as they are subject to a macro-economic adjustment programme.

We welcome the fact that Estonia, Germany, Luxembourg, the Netherlands and Slovakia have submitted draft budgetary plans that are compliant with the Stability and Growth Pact.

Belgium, Finland, France, Ireland, Latvia, Malta and Slovenia have submitted draft budgetary plans that are broadly compliant with the provisions of the Stability and Growth pact. We invite these Member States to ensure compliance with these provisions within the national budgetary processes and welcome their commitment to take any necessary measures.

We also recognise that, for a number of Member States, compliance with the rules of the Stability and Growth Pact is at risk.

- Member States under the preventive arm - Those Member States whose plans are at risk of non-compliance with the rules under the preventive arm should take, in a timely manner, additional measures to address the risks identified by the Commission as regards an appropriate convergence towards the MTO and the respect of the debt rule.

  Austria – We agree with the Commission's assessment that the budget is at risk of non-compliance with the requirements of the SGP. We note that according to the latest Commission assessment, Austria's structural fiscal effort in 2016 will be -0.4% of GDP, whereas +0.1% of GDP is required under the preventive arm to remain at the MTO. On that basis, additional measures would be needed to allow for an improvement of the structural effort.

  We note that an ex post assessment of overall budget execution, encompassing additional costs related to the refugee crisis, may result in Austria being able to avoid a significant deviation from the adjustment path towards its MTO. In this context, we welcome the commitments of Austria to implement the measures necessary to ensure that the 2016 budget will be compliant with the rules of the preventive arm of the SGP.

  Italy – We agree with the Commission's assessment that the budget is at risk of non-compliance with the requirements of the SGP. We note that the Commission has stated that Italy fulfils the eligibility criteria for the granting of an additional temporary deviation under the structural reform and investment clause and the Commission will make an assessment in spring 2016. We note that also an ex post assessment of overall budget execution, encompassing additional costs related to the refugee crisis, may result in Italy being able to avoid a significant deviation from the adjustment path towards its MTO.

  While we acknowledge that the debt-to-GDP ratio is forecast to begin to decline in 2016, the high debt level remains a matter of concern. We note that according to the latest Commission assessment, Italy's structural fiscal effort in 2016 will be -0.5% of

GDP, whereas +0.1% of GDP is required under the preventive arm, taking into account only the flexibility clauses invoked in the 2015 Stability Programme. On that basis, additional measures would be needed to allow for an improvement of the structural effort.

In this context, we welcome the commitments of Italy to implement any measures necessary to ensure that the 2016 budget will be compliant with the rules of the preventive arm of SGP. We also welcome the commitment to use windfall revenues or unforeseen expenditure savings in 2016 and step up privatisation efforts to bring the debt ratio on a declining path.

Lithuania – We agree with the Commission's assessment that the budget is at risk of non-compliance with the requirements of the SGP, however we note the uncertainty surrounding the evaluation of cyclical developments. The Commission's overall assessment emphasises the expenditure benchmark and identifies a risk of significant deviation from the adjustment path towards the MTO. In particular, the Commission projects that expenditure growth will be 2.8% in 2016 whereas the applicable reference rate of expenditure growth according to the expenditure benchmark is 1.6%, given the Commission's present assessment of the structural balance in 2015. On that basis, additional measures would be needed. The overall assessment does not take into account the full effect of the tax administration reform, which if, fully, realised would reduce the risk.

We welcome the commitments of Lithuania to implement the measures necessary to ensure that the 2016 budget will be compliant with the rules of the preventive arm of SGP.

➢ Member States remaining in the corrective arm of the SGP should ensure a timely correction of their excessive deficit, appropriate convergence towards the MTO thereafter, and respect of the debt rule. We reaffirm the importance of structural effort and bottom up measures in the corrective arm and recognise that merely achieving headline deficit targets may not be sufficient to ensure durable corrections of excessive deficits.

Spain – We agree with the Commission assessment that the budget is at risk of not complying with the requirements of the EDP recommendations. We note that according to the latest Commission forecast, the headline deficit will be 3.6% of GDP in 2016, whereas a deficit of 2.8% of GDP is recommended.

On that basis, we invite Spain to implement the measures necessary to ensure that the EDP requirements are met. We call on Spain to submit an updated Draft Budgetary Plan covering all sectors of general government, as soon as possible, including additional measures to allow for an improvement of the headline deficit, in order to comply with the rules of the SGP.

We will continue closely monitoring euro area Member States' fiscal and economic policies, as well as the budgetary situation of the euro area as a whole. In particular, the Eurogroup will assess progress made with respect to the implementation of the Draft Budgetary Plans and additional commitments. This will be based on our commitment to the credibility of the SGP and on detailed follow-up assessments from the Commission, currently planned for April 2016. In this regard, we await the submission of a DBP for Portugal and an updated DBP for Spain. We trust the Commission to take all necessary steps to ensure compliance with the SGP. Looking to the future, we call upon the Commission to increase the transparency and predictability of the procedure. We call for a greater codification of the DBP process to provide clarity in cases of early or late DBP submission and the treatment of DBPs submitted under a no policy change assumption.

We also underline that early adoption of the Commission Opinions is the key to timely guidance for our national budgetary processes.