Brussels,
5 December 2016

Eurogroup Statement on the Draft Budgetary Plans for 2017

The Eurogroup welcomes that 18 Member States have submitted Draft Budgetary Plans (DBPs) for 2017 on time. The Commission has provided in-depth individual assessments and Opinions on these, together with an analysis of the budgetary situation in the euro area as a whole. We broadly concur with the Commission's analysis and opinions. We welcome the work done by independent fiscal institutions within most Member States to endorse or produce forecasts underpinning DBPs. We look forward to the Commission report on transposition of the provisions of the fiscal compact into national laws.

In 2017, the euro area is set to enter its fifth year of economic recovery and all 19 euro area Member States are set to have positive growth rates, even though the pace of the recovery remains uneven. Overall, employment is expected to grow, supporting domestic demand. Many of the preconditions for stronger investment growth are in place and construction investment is set to finally end a long period of weakness. Nevertheless, the economic recovery remains fragile. Weak international trade developments and downside risks in the international economy underline the importance of fostering internal sources of growth.

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 1.8% of GDP in 2016, the ratio is expected to fall further, to 1.5% of GDP in 2017. Based on the assumptions in the autumn forecast, all but one Member State will have deficit ratios below 3% of GDP in 2017. As a result, the aggregate debt-to-GDP ratio in the euro area, which peaked at 94.6% of GDP in 2014, is projected to continue declining, reaching 91.6% of GDP in 2016 and 90.6% of GDP in 2017 and should be brought on a sustained declining path in line with the debt rule. Interest expenditures in the euro area continue to decline. Previous Eurogroup meetings have stressed the need for prudent fiscal policies to build resilience for when interest rates inevitably rise again.

We took note of the Commission Communication and analysis of the fiscal stance calling for a positive fiscal stance. The Eurogroup in July concluded, on the basis of Commission analysis, that the broadly neutral aggregate fiscal stance in 2017 strikes an appropriate balance. The Eurogroup underlines today, the importance to strike an appropriate balance between the need to ensure sustainability and the need to support investment to strengthen the fragile recovery thereby contributing to a more balanced policy mix.

The Eurogroup underlines that Member States are in very different situations. The Commission assessment of the individual budgetary plans shows that eight Member States are at risk of not meeting their obligations under the SGP in 2017 and should take additional measures. Conversely, some Member States have outperformed their medium-term objectives and may have scope to prioritise investments to boost potential growth while preserving the long-term sustainability of public finances.

The SGP provides significant flexibility to adjust fiscal policy to developments in Member States and we take note that the Commission will take into account duly justified eligible expenditures related to refugees, security and natural disasters when making its ex post assessments of compliance with the SGP. We note that Austria, Belgium, Italy, Slovenia and Finland have referred to these costs in their DBPs. We also take note that the Commission will consider Finland's and Lithuania's fulfilment of eligibility conditions for the structural and investment clauses, together with the other relevant factors, when assessing compliance with the preventive arm of the SGP in spring 2017, in line with the commonly agreed position on flexibility in the SGP. We underline the importance that requests by Member States for flexibility under the SGP, including for exceptional spending linked to unusual events outside the control of the governments, are considered by the Commission in a consistent manner across Member States.

The quality of public finances can be enhanced by further refocusing budgets on investment and other expenditure and revenue categories that raise economic growth potential. We take note of the Commission's assessment that DBPs overall envisage only very limited changes in the composition of public finances and agree that there is scope for more growth-friendly choices. In this respect, the Eurogroup reaffirms the importance of reducing the burden of labour taxation. In addition, well-designed spending reviews help to link spending decisions to policy priorities and improve value for money. Continued implementation of structural reforms remains essential to increase potential growth, while ensuring the sustainability of public finances.

As background to the assessment of the 2017 DBPs, we have taken stock of the implementation of the 2016 DBPs. We welcome that the number of Member States at risk of non-compliance with the SGP has steadily decreased over the course of this year. In November 2015, four Member States were assessed to be at risk of non-compliance and one Member State was not assessed. When we followed up on DBP implementation in March, seven Member States were assessed to be at risk. Now, based on the Commission's Autumn Forecast, only Belgium is not projected to meet its requirements under the preventive arm in 2016, while broad compliance for Italy is not yet ensured. A timely and durable correction of the excessive deficits of Portugal is projected by 2016. However, risks remain, given the potential deficit increasing impact of a bank recapitalisation. Based on the Commission forecast, the DBPs for Germany, Ireland, Cyprus, the Netherlands, Austria, Slovenia and Malta are consistent with debt rule compliance (or transitional debt rule). For Finland, we note that at this juncture the Commission still refers to its May 2016 report, while for Belgium and Italy, any non-compliance will be assessed by the Commission.

For 2017, the Eurogroup takes note that no draft budgetary plan was found in particularly serious non-compliance with the obligations of the SGP and that consequently no resubmission of a DBP was requested by the Commission. We note that Spain and Lithuania submitted DBPs on a no-policy-change basis. This is in line with our agreed approach when governments lack full budgetary powers. Spain and Lithuania are now required to submit full DBPs as soon as possible. The Eurogroup stands ready to assess these plans on the basis of Commission Opinions once these are available. We also recall that Greece was not assessed today as part of this exercise as it is subject to a macro-economic adjustment programme.

Regarding the Commission assessment of individual Member States, we welcome the fact that Germany, Estonia, Luxembourg, Slovakia and the Netherlands have submitted draft budgetary plans that are compliant with the SGP. Germany, Luxemburg and the Netherlands are over-achieving their MTO. The Eurogroup acknowledges that these Member States could use their favourable budgetary situation to further strengthen their domestic demand and growth potential, depending on country specific circumstances, while respecting the medium-term objective, the national budgetary prerogatives and national requirements.

France, Ireland, Latvia, Malta and Austria have submitted draft budgetary plans that are broadly compliant with the provisions of the SGP. 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 eight Member States, compliance with the rules of the SGP is at risk.

- ➢ Member States under the preventive arm and 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 respect the debt rule. The Eurogroup will monitor implementation of such measures in March 2017.

  - Belgium – We agree with the Commission's assessment that the budget is at risk of non-compliance with the requirements of the SGP. The Commission projects a significant deviation from the required adjustment path towards the MTO in 2016 and, as a result of this, also over 2016 and 2017 taken together. We note that according to the latest Commission assessment, Belgium's structural fiscal effort in 2016 and 2017 taken together will be +0.6% of GDP, whereas +1.2% of GDP is required under the preventive arm. On that basis, all planned measures would need to be fully implemented 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 and security measures, may result in Belgium being able to have a smaller though still significant deviation from the adjustment path towards its MTO. In this context, we welcome the commitments of Belgium to implement the measures necessary to ensure that the 2017 budget will be compliant with the rules of the preventive arm of the SGP. The high debt level in Belgium remains a matter of concern. We take note that in light of prima facie non-compliance with the debt reduction benchmark, the Commission will issue a new report under article 126(3) TFEU.

- 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 according to the latest Commission assessment, Italy's structural fiscal effort in 2017 will be -0.5% of GDP, whereas +0.6% of GDP is required under the preventive arm. On that basis, significant additional measures would be needed.

  We also note that an ex post assessment of overall budget execution, encompassing additional costs related to the refugee crisis, security measures and costs arising from recent earthquakes, may result in Italy being able to have a smaller though still significant deviation from the adjustment path towards its MTO.

  We invite Italy to take the necessary steps to ensure that the 2017 budget will be compliant with the rules of the preventive arm of the SGP. The high debt level in Italy remains a matter of concern. We recall the commitment to use windfall revenues or unforeseen expenditure savings in 2017 and step up privatisation efforts to bring the debt ratio on a declining path. We take note that in light of prima facie non-compliance with the debt reduction benchmark, the Commission will issue a new report under article 126(3) TFEU.

- Cyprus – 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, Cyprus's structural fiscal effort in 2017 will be -1.4% of GDP, whereas Cyprus is required to remain at the MTO of a structural balance of 0.0% of GDP. Following that assessment, significant additional measures would be needed. We welcome the commitments of Cyprus, in such circumstances, to implement the measures necessary to ensure that the 2017 budget will be compliant with the rules of the preventive arm of the SGP.

- Lithuania – We agree with the Commission assessment that there is a risk of non-compliance with the requirements of the SGP. The Commission's overall assessment identifies a risk of significant deviation from the adjustment path towards the MTO. In particular, the Commission projects that expenditure growth will be +3.0% in 2017 whereas the applicable reference rate of expenditure growth according to the expenditure benchmark is +2.2%, given the Commission's present assessment of the structural balance in 2016.

  We note that Lithuania has undertaken an ambitious labour market reform and a pension system reform. Lithuania has submitted an application for the use of the structural reform clause in 2017. If granted this would result in a smaller deviation from the adjustment path towards the MTO and we await the Commission assessment. We invite Lithuania to implement the measures necessary to ensure that the SGP requirements are met. We call on Lithuania to submit an updated Draft Budgetary Plan as soon as possible, including the necessary additional measures, also taking into account the possible granting of the structural reform clause, to allow for an improvement of the expenditure benchmark, in order to comply with the rules of the SGP.

- Slovenia – 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, Slovenia's structural fiscal effort in 2017 will be -0.2% of GDP, whereas +0.6% of GDP is required under the preventive arm. 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 Slovenia being able to have a smaller though still significant deviation from the adjustment path towards its MTO. In this context, we welcome the commitments of Slovenia to implement the measures necessary to ensure that the 2017 budget will be compliant with the rules of the preventive arm of the SGP.

- Finland – 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, Finland's structural fiscal effort in 2017 will be -0.3% of GDP, whereas +0.6% of GDP is required under the preventive arm. On that basis, additional measures would be needed to allow for an improvement of the structural effort.

  We note that Finland has undertaken ambitious reforms aimed at improving competitiveness. Finland has submitted an application for the use of the structural reform clause and the investment clause in 2017. If granted this would result in a smaller deviation from the adjustment path towards the MTO and we await the Commission assessment. In this context, we welcome the commitments of Finland to implement the measures necessary to ensure that the 2017 budget will be compliant with the rules of the preventive arm of the 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. Recent experience has confirmed that merely achieving headline deficit targets may not be sufficient to ensure durable corrections of excessive deficits. The Eurogroup will monitor implementation of necessary measures in March 2017.

- Spain – We agree with the Commission assessment that under the current no policy change scenario there is a risk of non-compliance with the requirements of the EDP recommendations. We note that according to the latest Commission forecast, the headline deficit will be 3.8% of GDP in 2017, whereas a deficit of 3.1% 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 as soon as possible, including additional measures to allow for an improvement of the headline and structural deficit, in order to comply with the rules of the SGP.

- Portugal – We agree with the Commission assessment that the budget is at risk of non-compliance with the requirements of the SGP; the projected deviation, however, exceeds the threshold for a significant deviation by a very narrow margin. Portugal, which is currently under the corrective arm, is projected to respect the Treaty reference value of 3% of GDP this year. It could become subject to the preventive arm from 2017, if a timely and sustainable correction of the excessive deficit is achieved. We note that according to the latest Commission assessment, Portugal's structural fiscal effort in 2017 will be 0.0% of GDP, whereas +0.6% of GDP would be required under the preventive arm. 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 Portugal to implement the measures necessary to ensure that the 2017 budget will be compliant 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 line with our commitment to the credibility of the SGP. In particular, the Eurogroup will follow progress made with respect to the implementation of the Draft Budgetary Plans and additional commitments. This will be based on detailed follow-up assessments from the Commission, currently planned for March 2017. In this regard, we also await the submission of full Draft Budgetary Plans for Spain and Lithuania and continued work on the common method output gap and the constrained judgement approach. The Eurogroup underlines that fiscal policies should be pursued in full respect of the Stability and Growth Pact. We trust the Commission to take all necessary steps to ensure compliance with the SGP.