Eurogroup

Brussels, 7 March 2016

Eurogroup Statement on follow-up to the Draft Budgetary Plans for 2016

The Eurogroup assessed progress made with respect to the implementation of draft budgetary plans (DBPs) of 17 euro area Member States as envisaged in our statement of 23 November, recalling that Cyprus and Greece were not assessed today as they are subject to a macro-economic adjustment programme. In November, Member States made commitments to implement the measures necessary to ensure that the 2016 budgets will be compliant with the rules of the Stability and Growth Pact (SGP). Today, based on the Commission 2016 winter forecast, the Eurogroup has assessed how Member States have progressed in relation to these commitments.

We take note that developments in several Member States are leading to a slightly higher deficit level in the euro area as a whole than was projected in November. At the Member State level, there are increased risks that some budgets do not comply with obligations under the SGP in 2016 than previously forecasted. In general, previous commitments to ensure SGP compliance have yet to be translated into specific actions.

In spite of slower consolidation, the budgetary situation of the euro area as a whole continues to improve and debt ratios are set to gradually decline. This is to a large extent the result of continuing growth and interest windfalls. In 2016 this implies a euro area fiscal stance that, while still broadly neutral, is slightly more expansionary than assessed in the autumn. We concur with the Commission that this is broadly appropriate even though the composition should be improved. In line with the Commission analysis, this planned fiscal stance reflects a balance between long-term fiscal sustainability and short-term macroeconomic stabilisation.

Member States' budgets that are currently considered compliant with the SGP based on the winter forecast are Germany, Estonia, Luxembourg and Slovakia.

The budget of the Netherlands, which was assessed as compliant in November, is now assessed as broadly compliant. Member States' budgets that are also considered broadly compliant with the SGP based on the winter forecast are Latvia, Malta, Finland, Ireland, and France. In the case of France, the assessment of broad compliance hinges on the projected achievement of the 2016 headline deficit target contained in the EDP recommendation. At the same time, the projected structural effort falls significantly short of the requirements of the EDP recommendation. Today we welcomed renewed commitments from these Member

States to stand ready to undertake additional measures as appropriate to ensure that the requirements of the SGP are met in 2016.

We also recognise that, for a number of Member States, compliance with the SGP is at risk.

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

- Austria – we note that no substantial further measures have been taken since the November assessment and there is a risk of a significant deviation from the MTO. According to the winter forecast, the 2016 structural deficit is projected to increase by 0.7% of GDP to 1% of GDP - whereas it should be remaining at the MTO.
  We recognise that Austria faces mounting refugee-related expenditure. We recall 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. 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 SGP.
- Italy – we note that additional deficit increasing measures have been taken since the November assessment and there is a risk of a significant deviation from the required adjustment path towards its MTO. According to the Commission winter forecast, the structural balance is projected to deteriorate by 0.7% of GDP in 2016, whereas an improvement of 0.1% is required, taking into account the flexibility already granted. We note that the Commission had 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 further note that even if the maximum potential additional flexibility is granted, the risk of a significant deviation may remain.
  While we acknowledge that the debt-to-GDP ratio has stabilised in 2015 and is forecast to begin to decline in 2016, the high debt level remains a matter of concern. We note that based on the winter forecast, Italy is not projected to be compliant with the debt rule in 2015 and 2016.
  In this context we look forward to the Commission's forthcoming spring reassessment of Italy's compliance with the preventive arm and the debt rule and we welcome the commitments of Italy to implement the measures necessary to ensure that the 2016 budget will be compliant with the rules of the SGP.
- Lithuania – we welcome that additional deficit-reducing measures of 0.1% of GDP have been taken and that projected net expenditure growth has diminished since the November assessment. At the same time, as a result of the assessed impact of the economic cycle, there is still a risk of a significant deviation from the MTO in 2016,

based on an overall assessment taking into account the development of the expenditure benchmark, according to the winter forecast. The 2016 structural deficit is projected to deteriorate by 0.4% of GDP whereas it should remain at the MTO.
In this context, we welcome the commitments of Lithuania to continue to implement the measures necessary to ensure that the 2016 budget will be compliant with the rules of the SGP.

- Belgium – we note that Belgium, which was considered broadly compliant in the November assessment, is now at risk of non-compliance. According to the Commission winter forecast, the cumulated structural effort over 2015 and 2016 is projected to reach 0.5% of GDP, whereas 1.2% are recommended for an appropriate adjustment path towards the MTO. We further note that the expenditure benchmark also points to a significant deviation.
  The high debt level remains a matter of concern. We note that, based on the winter forecast, Belgium is not projected to be compliant with the debt rule in 2015 and 2016.
  In this context, we look forward to the Commission's forthcoming spring reassessment of Belgium's compliance with the preventive arm and the debt rule and we welcome the commitments of Belgium to implement the measures necessary in the context of the March budget control exercise to ensure that the 2016 budget will be compliant with the rules of the SGP.
- Slovenia – we note that Slovenia, which was considered broadly compliant in the November assessment, is now at risk of non-compliance. According to the winter forecast, the 2016 structural effort is projected at 0.1% of GDP, whereas 0.6% are recommended for an appropriate adjustment path towards the MTO (on the assumption of a timely and durable correction of the excessive deficit in 2015). We further note that the expenditure benchmark also points to a significant deviation.
  In this context, we welcome the commitments of Slovenia to implement the measures necessary to ensure that the 2016 budget will be compliant with the rules 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. We reaffirm the importance of structural effort 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 note that no substantial further measures have been taken since the November assessment and the budget is still at risk of non- compliance with the requirements of the EDP recommendation. We note that according to the winter forecast, taking into account regional budgets, the headline deficit will be 3.6% of GDP in 2016, which is above the 3% of GDP Treaty reference value and the recommended target of 2.8%.

We recall our November request to Spain to submit an updated DBP 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 return to the assessment of Spain in spring in the context of any necessary further EDP steps on the basis of Eurostat validated data for the 2015 budgetary outcome, Spain's forthcoming Stability Programme and the Commission 2016 spring forecast.

- Portugal – we reconfirm our statement of 11 February 2016 regarding the risk of non-compliance of Portugal's plan with the requirements of the SGP. Following up on that statement, we were informed that additional measures were under preparation, and that these measures will be implemented when needed to ensure that the 2016 budget will be compliant with the SGP.
  We will return to the assessment of Portugal in spring in the context of the necessary further EDP steps on the basis of Eurostat validated data for the 2015 budgetary outcome, Portugal's forthcoming Stability Programme and the Commission 2016 spring forecast.

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. We trust the Commission to take all necessary steps to ensure compliance with the SGP and stand ready to support this process.