Eurogroup
The President

Brussels, 11 March 2016

To the members of the Eurogroup

Subject: Eurogroup of 7 March 2016

Dear Colleagues,

I would like to share with you the main content and course of our discussions at the Eurogroup meeting of 7 March 2016 in Brussels, to which we welcomed the new Latvian Finance Minister, Dana Reizniece-Ozolato. Besides Vice-President Valdis Dombrovskis, Commissioner Pierre Moscovici, Member of the ECB's Executive Board Benoît Cœuré and ESM Managing Director Klaus Regling, we welcomed Poul Thomsen, Director of the IMF's European Department, who joined us for the discussions on Greece and Cyprus.

1. Greece – state of play

We were informed by the institutions and the Greek authorities of the state of play of the first review of the Greek ESM programme. We welcomed that following further constructive talks in the last few days the mission chiefs will return to Athens the day after the Eurogroup meeting, with a view to reaching agreement on an ambitious policy package with the Greek authorities.

Progress was reported on the discussions surrounding the pension reform, the income tax reform and the setting up of the privatisation fund and the independent revenue agency. At the same time, we recognised that further work is still needed on all of these areas - as well as on a number of others such as fiscal issues, or the implementation of the NPL strategy - before an overall agreement can be reached on the reform package. Moreover, we encouraged the Greek authorities to pursue, with determination, other important aspects of the programme, such as ongoing privatisation projects and the de-politicisation of the public administration.

The Greek Minister highlighted the better-than-expected performance of the Greek economy in 2015 and the expectation of meeting the primary fiscal target for 2015 and looked forward to continuing discussions with the institutions in Athens shortly.

We called on the institutions and the Greek government to make all efforts needed and to pursue their joint-work with a view to have an agreement in principle as soon as possible. We recalled that the policy package must deliver the target of a primary surplus of 3.5% in 2018 as agreed last August in the Memorandum of Understanding.

I also reminded Ministers that the Eurogroup will come back to the issue of debt related measures for Greece in its coming meetings, as signalled in the Eurogroup statement of 14 August 2015.

2. Cyprus – state of play

We held a discussion on the overall success of the Cypriot financial assistance programme, which came to an end on 07 March, for the IMF, and comes to an end on 31 March, for the ESM. We commended the Cypriot authorities for the overall successful implementation of the programme.

We agreed with the institutions that the likely non-implementation of the last ESM prior action regarding the Cyprus Telecommunication Authority should not overshadow the overall positive result of programme or the efforts of the government in implementing the agreed conditionality. The institutions recalled the key achievements under the programme, including the return to economic growth, the over-achievement of the fiscal targets, the lifting of capital controls and substantial reforms undertaken in the financial sector. On the latter, despite the progress achieved, it was recognised that there remains work to be done, in particular to address the still high ratio of Non-Performing Loans (NPLs).

The Cypriot Minister gave a presentation on the significant progress that has taken place in the country's economy as a result of programme implementation and thanked the Eurogroup and the institutions for their support. The favourable financial conditions of the ESM programme have clearly helped Cyprus to weather the necessary adjustment.

We concluded that Cyprus is yet another example of how commitment to reform can lead to a return to sustainable growth paths and issued a statement highlighting our main conclusions. The important fiscal, financial and structural reforms undertaken during the programme are achievements to hold on to and to build on in tackling the remaining challenges.

We adopted a statement to this effect (see Annex).

3. DBP follow-up

We followed-up on the implementation of draft budgetary plans and the commitments contained in our Eurogroup statements of 23 November and of 11 February (on Portugal). We noted that the pace of consolidation has slowed since November and that there are identified risks that the budgets of seven Member States may not comply with the requirements of the Stability and Growth Pact (SGP). Several budgets are deemed more at risk now than back in November (notably Belgium and Slovenia) and we noted that Italy has taken additional deficit increasing measures since the November assessment. The other at-risk budgets are those of Portugal, Spain, Austria and Lithuania. The commitments to address these risks were reiterated in the statement we adopted on this issue (see annex). We will follow up again in May when the spring forecasts and the 2015 out-turn are available and we count on the Commission to propose all the necessary steps under the SGP.

Based on a number of concerns related to specific cases raised during the discussion, we also expressed our support for an intensification of the ongoing technical work on the commonly agreed methodology for calculating output gaps. We took note that the Commission is also working on a single practical indicator of SGP compliance which may also be relevant in this respect. We concluded that we should follow up on this.

4. Benchmarking – concept and applications in the euro area

We had a substantive exchange of views on the concept and applications of benchmarking in the context of our regular Eurogroup thematic discussions to support reforms that generate growth and jobs in the euro area. We agreed to continue these discussions and confirmed that this will sometimes involve benchmarking the performance of euro area Member States, as we already did in relation to the labour tax wedge in September 2015. These exercises can help to foster structural reforms and highlight examples of best practice, while also making good on our commitment to continue with a dedicated follow-up to the European semester recommendations to the euro area as a whole. We confirmed that these euro area recommendations remain an appropriate guide for the selection of future thematic discussions and underlined that topics should be of particular relevance to Finance Ministers. We agreed on the importance of basing benchmarking exercises on solid data and demonstrating the positive impacts of structural policies on convergence of euro area Member States to a higher level of prosperity and resilience, including through multi-year follow up. We clarified that these exercises are, however, not compulsory and do not equate to the binding convergence standards as envisaged in stage II of EMU deepening in the Five Presidents Report.

5. Miscellaneous

(a) Policy priorities of Latvia

Minister Reizniece-Ozola briefly presented the economic and financial policy priorities of the Latvian government to the Eurogroup, as is customary when a new government comes into office. We especially welcomed the commitments towards a balanced budget, structural reform and an enhanced business environment and competitiveness.

(b) Transparency of Eurogroup meetings

We concluded discussions on publication of the bulk of Eurogroup documents. From now on, documents submitted to the Eurogroup will, as a rule, be published shortly after meetings, unless there are well-founded objections such as: (i) documents which are still work in progress, and/or subject to further substantial changes; (ii) documents containing confidential or market-sensitive information; and (iii) documents for which the author institution objects to their publication. In practice, it can be assumed that the third exception would be often justified by reference to the first two types of considerations. Coming in addition to the already agreed publication of agendas and of summing up letters, this will further increase the transparency of Eurogroup meetings. This initiative also extends to the ESM Board of Governors; the ESM will publish ESM programme documents on its website.

(c) Annual ex-ante reporting on issuance plans

We took note of the annual ex ante reporting on debt issuance plans of euro area Member States. We were of the view that this exercise under the Two-Pack Regulation has clearly contributed to enhanced transparency on debt issuance by streamlining of reporting, in particular on short term debt figures.

(d) Preparation of G7 meeting – mandate to the Eurogroup Working Group

Finally, we mandated the EWG with the task of preparing main policy messages upon which I could draw in an upcoming G7 meeting which might take place in the margins of the IMF spring meetings in April.

Yours sincerely,

Jeroen DIJSSELBLOEM

Annex I

Brussels, 07 March 2016

Eurogroup statement on Cyprus

The Eurogroup supports the Cypriot government's decision to exit its macroeconomic adjustment programme without a successor arrangement. The Eurogroup commends the Cypriot authorities for the overall successful implementation of the programme and the important achievements made in the past three years, and also thanks the institutions for their vital contribution towards this end.

The Eurogroup welcomes the fact that economic activity has continued on a positive trend, and the banking system has further healed. The commitment of the authorities and the Cypriot people to the overall programme agreements has also been essential to a fiscal performance that has exceeded expectations. These positive developments have been instrumental in regaining investor confidence in the Cypriot economy, with the sovereign returning to the international markets.

The Cypriot banking system in particular has undergone a deep transformation. The ground covered since March 2013 has been significant and the reform measures, which have been executed or are underway are essential to restoring the Cypriot financial system to viability. However, work must continue with determination to secure the reduction of the non-performing loan ratio to healthier levels. This includes the rigorous and swift implementation of the insolvency framework and foreclosure laws adopted in 2015 together with further measures including the legislation on sale of assets and effective use of the full range of the available non-performing loan management tools.

At the same time, the Eurogroup notes that the last prior action under the current review has not yet been completed. The privatisation of the Cypriot Telecommunications Authority would be another growth-enhancing step. Along with public administration reform and other structural reforms discussed during the programme, this would cement the improvements in public finance and support sustained economic growth.

In total, about 30% of the EUR 9 bn programme envelope remains unutilised. We note that the IMF programme is expected to come to an end today, 7 March.

Against this background, the Eurogroup welcomes the reaffirmed commitment by the Cypriot authorities to sustain public finances consolidation and the reform momentum over the medium term, in order to address the remaining vulnerabilities. The Eurogroup will continue supporting the reform process in Cyprus, inter alia in the context of post-programme surveillance and of the regular EU and euro-area specific monitoring frameworks.

Annex II

Brussels, 07 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.