



**Eurogroup**  
The President

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To the members of the Eurogroup

**Subject:** Eurogroup meeting of 12 July 2018

Dear colleagues,

I would like to share with you the main content and course of our discussions at the Eurogroup meeting held on 12 July 2018 in Brussels. The Commission was represented by Vice-President Dombrovskis and Commissioner Moscovici. Our meeting was attended by ECB Executive Board Member Benoît Coeuré and by ESM Managing Director Klaus Regling. We also welcomed Professor Niels Thygesen, Chair of the European Fiscal Board, for our discussion on the budgetary situation in, and prospects for, the euro area as a whole, and Jeffrey Franks, Director of the IMF Europe Office, for the item on Ireland – post-programme surveillance.

## 1. Debrief from the June Euro Summit

I presented to the Eurogroup the main outcome of the June Euro Summit. Leaders mandated the Eurogroup to further discuss all the items mentioned in my letter to President Tusk. I recalled the three main strands of the work ahead until the end of the year. First, on Banking Union, the Eurogroup will need to focus on starting the work on a roadmap for beginning political discussions on EDIS, a possible framework for liquidity in resolution and measures to enhance the organisation of anti-money laundering. Progress with risk reduction should be monitored, and the main legislative files need to be agreed and implemented. Second, the Eurogroup will prepare terms of reference of the common backstop to the SRF, including on its early introduction and possible changes to the IGA by December 2018. On the ESM reform, the Eurogroup will prepare an outline of the key features of a reinforced ESM by December 2018, working on the following elements: a review of the ESM toolkit, in particular precautionary instruments and possible new instruments; work on a stronger role of the ESM in programmes; debt sustainability issues. Finally, on the euro

area fiscal capacity, discussions should continue on the basis of the two proposals by the Commission within the MFF framework, and recent proposals on a possible euro area budget for competitiveness, convergence and stabilisation purposes and a European unemployment insurance fund . The discussions will be held in inclusive format, when relevant.

Our discussion showed broad agreement that priority should be given to the deepening of EMU in our work in the coming months and that the political momentum should be used. The work programme of the Eurogroup until the end of the year will reflect this priority.

## **2. Presentation of the Commission's summer interim forecast**

The Commission presented its summer interim forecasts focusing on growth and inflation. After five consecutive quarters of vigorous expansion, the economic momentum moderated in the first half of 2018. However, fundamentals remained favourable for a continued economic expansion. The growth momentum is expected to strengthen somewhat in the second half of this year, as labour market conditions further improve, economic confidence remains high and monetary policy remains supportive. The Commission stressed that the outlook is susceptible to significant downside risks which have increased since spring.

I concluded that we remain cautiously optimistic that the euro area economy will continue to expand at a steady pace. We are all aware of the risks, which are skewed to the downside and which leave no room for complacency in our policies.

## **3. Budgetary situation and prospects in the euro area as a whole**

The EFB, whose role it is to advise the Commission, presented its analysis of the budgetary situation in, and prospects for, the euro area as a whole. It underlined that the current expansion offers a clear opportunity to create fiscal buffers and prepare public finances for the future. It concluded that, overall, the current outlook warrants a somewhat restrictive fiscal stance for the euro area in 2019. The Commission concurred with the EFB analysis on the need for fiscal consolidation in Member States with a high government debt-to-GDP ratio, while maintaining its assessment that a broadly neutral aggregate stance for 2019 is appropriate.

Our discussion focused on the need for differentiated fiscal efforts depending on the country circumstances, on methodological improvements to the measurement of output gaps, on the composition of public expenditures and a strengthening of fiscal governance. I concluded that, given the uncertainties and risks to the economic outlook, and in view of the preparation of draft budgetary plans, it is important for us to adopt credible policies that properly reflect each country's specific circumstances. Rebuilding fiscal buffers remains a priority for Member States with high debt levels. Member States having outperformed their medium term budgetary objectives could use their favourable budgetary situation to prioritise investments to boost potential growth while preserving the long-term sustainability of public finances.

#### **4. Ireland post programme surveillance**

We were informed by the Commission and the ECB about the main findings of the ninth post-programme surveillance mission in Ireland, and by the ESM on its early warning system. The IMF also presented the results of its Article IV review. The institutions welcomed the strong economic performance of Ireland. At the same time, they pointed to the continued risks stemming from Brexit, the international taxation environment and the increase in property prices. An ongoing effort was required to deal with legacy issues in the financial sector. The ESM stated that there were no material risks to the repayments of loans in the short term. The Irish Minister broadly agreed with the views expressed by the institutions.

We praised the efforts undertaken by the Irish authorities to address the legacy of the crisis, broadly agreed with the institutions about the risks faced by the Irish economy and welcomed the Irish authorities' intention to establish a rainy day fund.

#### **5. Spain – post programme surveillance**

We were debriefed by the European Commission and the ECB on the main findings of the ninth post-programme surveillance mission to Spain. They reported on very positive developments on both the macroeconomic and financial sector front with imbalances unwinding, despite some remaining challenges related to remaining imbalances in the labour market, the fiscal deficit and private and public debt, including public sector exposure to the financial sector. The Spanish Minister reported on the strong economic recovery which continues to support the stabilisation of the financial sector and stated the government's strong intention to tackle remaining challenges, notably regarding the public debt to GDP ratio, inequalities and the importance of returning to higher growth rates of potential GDP. She reiterated the government's commitment to the respect of EU fiscal rules. The ESM also informed us that they assessed that risks to the repayments of loans remained very low and that Spain intends to continue its strategy of early repayments this year.

Yours sincerely,

Mário CENTENO