Eurogroup
The President

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To the members of the Eurogroup

Subject: Eurogroup meeting of 4 December 2017

Dear Colleagues,

I would like to share with you the main content and course of our discussions at the regular Eurogroup meeting held on 4 December 2017 in Brussels.

Our meeting was attended by Vice-President Valdis Dombrovskis and Commissioner Pierre Moscovici. The ECB was represented by President Mario Draghi and Executive Board Member Benoît Coeuré and the ESM by Managing Director Klaus Regling. We also welcomed Jeffrey Franks, Director of the IMF Europe Office, who joined us for the discussions on Greece and the post-programme surveillance for Cyprus. Professor Niels Thygesen, Chair of the European Fiscal Board (EFB) attended the discussion on the assessment of the Draft Budgetary Plans (DBPs) and of the euro area budgetary situation and prospects.

1. Greece – State of play

We were informed by the European institutions and the Greek minister that a staff level agreement on the policy package for the third review had been reached at the end of the mission which ended on 3 December. The European institutions informed us on the state of play of the prior actions, which are expected to be implemented by early January. The IMF expressed their support for the agreement and welcomed the commitment of the Greek authorities to meet IMF programme targets. Ministers welcomed the progress made and the good cooperation with the Greek authorities. At the same time, concerns were raised in the meeting regarding the ongoing proceedings against the members of the Committee of Experts of the TAIPED.

We agreed to continue work in the coming weeks with a view to reaching a conclusion of the third review at the next Eurogroup meeting. We also agreed to return to the Greek growth strategy which the authorities are in the process of finalising together with the institutions. In January 2018 technical work is expected to start on a growth – adjustment mechanism as part of the medium-term debt relief measures to be implemented at the end of the programme if needed, in line with the agreement in the Eurogroup of 15 June 2017.

2. Cyprus – third post programme surveillance review

We were informed by the Commission and the ECB about the main findings of the third post-programme surveillance mission in Cyprus, and by the ESM on its early-warning system. The IMF also presented the results of their Article IV consultation. The institutions welcomed the continuing strong economic and fiscal performances and invited Cyprus to maintain reform momentum and continue to address legacy issues especially in the financial sector. The ESM stated that there were no risks to the repayments of loans in the short term. The Cypriot Minister stressed the progress achieved in reducing private and public debt and agreed reform momentum should be maintained.

3. Spain – eighth post programme surveillance review

We were debriefed by the European Commission and the ECB on the main findings of the eighth post-programme surveillance mission to Spain carried out between 16-18 October. We have heard some very positive news on both the macroeconomic and financial sector front with imbalances unwinding, despite some remaining sector-specific challenges. The Spanish Minister reported on the strong economic recovery which continues to support the stabilisation of the financial sector. The ESM also informed us that its early warning system shows no risks to the repayments of loans and that Spain has proceeded with its sixth early repayment of the ESM loan which shows a comfortable liquidity position.

4. Thematic discussions on growth and jobs – tax wedge – follow-up

We briefly took stock of progress in the reduction of the tax burden of labour, based on a Commission note assessing progress on the benchmarks agreed by the Eurogroup in September 2015 and reform plans included in the 2018 DBPs. Overall the tax burden on labour has decreased in the euro area since 2012, with the decrease having been more pronounced for the lower wages, due to a focus of reforms on this segment. We welcomed progress achieved, acknowledged that more progress is needed in this field and agreed to continue monitoring our efforts.

5. Assessment of euro area Member States' Draft Budgetary Plans and of the euro area budgetary situation and prospects

The Commission presented the main messages of its assessment of the draft budgetary plans and the overall budgetary situation and prospects for the euro area as a whole. The euro area is enjoying broad based economic growth, although crisis legacies persist in some areas. We discussed the orientation of fiscal policy in the current environment. The broadly neutral fiscal stance was considered appropriate, while there was recognition of the need to rebuild fiscal buffers and create policy space. It was acknowledged that while the overall debt level in the euro area is set on a downward path, high debt levels coupled with limited structural fiscal adjustment expected in 2018 remain a matter of concern in some countries.

We noted that Member States are in very different situations. Six countries' budgetary plans (Belgium, France, Italy, Austria, Portugal and Slovenia) are at risk of non-compliance with the SGP in 2018, based on the Commission assessment. We agreed on the importance of considering the necessary additional measures to address the risks and ensuring compliance with the SGP. We endorsed a Eurogroup statement (see attached) to communicate the outcome of our discussions.

We also discussed the importance of ensuring that the Draft Budgetary Plan process remains valuable and mandated the Commission and the EWG to look into improvements to the timeline.

6. Draft Eurogroup Work Programme I-2018

We adopted the Eurogroup work programme for the first half of 2018.

7. Election of the new President of the Eurogroup

We elected Mário Centeno, Minister of Finance of Portugal, as the new Eurogroup President and expressed him our unanimous support. We thanked the other three candidates - Pierre Gramegna, Peter Kazimir; Dana Reizniece-Ozola for their interest in and commitment to the work of the Eurogroup. The new President of the Eurogroup will take office on 13 January 2018 and will serve a two and a half year term. The ESM Board of Governors is expected to appoint Mário Centeno as Chairperson of the Board of Governors, in his capacity as President of the Euro Group, via written procedure.

Yours sincerely,

Jeroen DIJSSELBLOEM

Annex I

Eurogroup Statement on the Draft Budgetary Plans for 2018

The Eurogroup welcomes that 18 Member States have submitted Draft Budgetary Plans (DBPs) for 2018. On 22 November, the Commission has provided in-depth individual assessments and Opinions, together with an analysis of the budgetary situation in the euro area as a whole. The Eurogroup underlines the importance of a timely and meaningful multilateral examination of the draft budgetary plans and invites the Member States to provide the draft budgets and the Commission to provide its assessments as soon as possible to allow for an in-depth discussion in the Eurogroup and its preparatory committees.

The Eurogroup takes note that no DBP was found in particularly serious non-compliance with the SGP and consequently no resubmission of a DBP was requested by the Commission. We note that Germany, Austria and Spain have submitted DBPs on a no-policy-change basis. We invite them to submit the updates of their DBPs as soon as possible and look forward to the Commission assessment of those updates. We also recall that Greece was not assessed as part of this exercise as it is subject to a macro-economic adjustment programme.

The euro area is enjoying broad based economic growth, although crisis legacies persist in some areas. According to the Commission autumn forecast, the aggregate deficit in the euro area is expected to further decline to 0.9% of GDP in 2018 from 1.5% of GDP in 2016. Aggregate debt in the euro area is also set to be on a downward path, from 91% of GDP in 2016 to 87% of GDP in 2018. A broadly neutral fiscal stance appears still appropriate at the aggregate euro area level in 2018. At the same time, the improving economic conditions call for the need to rebuild fiscal buffers, while continuing to strengthen the growth potential of our economies.

The Eurogroup notes that a slow pace of debt reduction from high levels in a number of Member States remains a matter for concern and should be decisively addressed in the current favourable economic situation. In this context, the limited structural fiscal adjustment expected in 2018 in some Member States is worrying, in particular when coupled with high sustainability risks. The Eurogroup recalls in this context that the focus on debt reduction is an integral part of the Stability and Growth Pact (SGP) and calls upon the Commission and the Council to apply the SGP in full. The Eurogroup underlines that fiscal policies should be pursued in full respect of the Stability and Growth Pact, thereby taking into account stabilisation needs and sustainability concerns. The Eurogroup also recalls the country-specific recommendations adopted by the Council on 11 July 2017 which include detailed and quantified fiscal policy guidance.

The Eurogroup remarks that Member States are in very different budgetary situations. The Eurogroup takes note that, based on the Commission assessment, the following Member States' plans are deemed to be at risk of non- compliance with the SGP in 2018: Belgium, Italy, Portugal, Slovenia and Austria – under the preventive arm of the SGP and France – currently under the corrective arm of the SGP, assessed under the assumption of a timely and durable correction of the excessive deficit. According to the Commission assessment, the DBPs of these Member States might result in a significant deviation from the adjustment path towards their respective MTOs. In addition, Italy, Belgium and France are also not expected to comply prima facie with the debt reduction benchmark in 2018. The Eurogroup invites all these Member States to consider in a timely manner the necessary additional measures to address the risks identified by the Commission and to ensure that their 2018 budget will be compliant with SGP provisions.

Based on the Commission assessment, the following Member States' plans are deemed to be broadly compliant with the SGP in 2018: Estonia, Ireland, Cyprus, Malta, Slovakia – under the preventive arm and Spain under the corrective arm. The Eurogroup invites these Member States to ensure compliance with SGP provisions within the national budgetary processes and welcomes their commitment to take any necessary measures.

The Eurogroup welcomes that a number of Member States' plans are deemed to be compliant with the SGP in 2018: Germany, Lithuania, Latvia, Luxembourg, Netherlands and Finland, all under the preventive arm. The Eurogroup notes that Member States having outperformed their medium term objectives could use their favourable budgetary situation to prioritise investments to boost potential growth while preserving the long-term sustainability of public finances.

The Eurogroup recalls the importance of a growth-friendly composition of public finances across the euro area. In this regard, the Eurogroup took stock of progress made by some Member States in the reduction of the tax burden on labour in line with the benchmarking agreement of September 2015 and encourages Member States to continue their efforts in this field, while ensuring full compliance with the SGP.

The Eurogroup welcomes the ongoing work to explore more country specificity in the commonly agreed methodology for output gap estimates. We will continue to monitor euro area Member States' fiscal and economic policies, as well as the budgetary situation of the euro area as a whole.