



EUROGROUP

Luxembourg, 7 June 2010

**Spring 2010 orientation debate on budgetary policies:
Orientations for fiscal policies in euro area Member States**

On 7 June, Eurogroup Ministers assessed recent budgetary developments in euro area Member States and their implications for the euro area as a whole, with a view to providing orientations towards the formulation of government budgets for 2011.

After an unprecedented recession, the euro area recovery is expected to be gradual in view of the still weak private demand and ongoing restructuring in the financial sector. The outlook is also surrounded by exceptional uncertainty and characterised by a differentiation in the speed of the recovery between countries, reflecting differences in adjustment challenges.

In 2009, the average euro area budget deficit deteriorated by 4.3 p.p. to 6.3% of GDP, mainly reflecting the operation of automatic stabilisers and to a lesser extent fiscal stimulus measures taken under the European Economic Recovery Plan. Debt levels increased by 9.3 p.p., reaching 78.7% of GDP. This has led to the opening of an excessive deficit procedure for most euro area Member States and to recommendations with a view to bringing an end to the situation of excessive deficit. These procedures reflect the principles for fiscal exit agreed by the Ecofin Council in October 2009. In particular, in view of the economic forecasts at the time, they require that Member States start consolidation in 2011 at the latest and earlier in a number of countries, depending on specific country situations.

On 9 May, the Council strongly committed to ensure fiscal sustainability and enhanced economic growth in all Member States and therefore agreed that plans for fiscal consolidation and structural reforms will be accelerated, where warranted.

Against this background, Ministers fully recognise the priority of halting and reversing the increase in the debt ratio and are committed to take immediate action to that effect. The overall fiscal stance of the euro area will be neutral in 2010, as continued fiscal expansion in a limited number of countries is counterbalanced by consolidation in the majority of Member States. The stance should become clearly restrictive as from 2011 when the recovery is expected to gain momentum, both for the euro area as a whole as well as for all individual Member States. A further coordinated differentiation in the speed of consolidation is warranted. In particular, consolidation needs to be frontloaded in a number of Member States in order to avoid adverse debt dynamics, also taking into account macro-financial stability considerations.

Furthermore, and especially as from 2011, Ministers commit to take additional measures, where needed, in order to ensure the achievement of the budgetary targets for 2010 and beyond, which have recently been strengthened significantly in a number of countries. This should underpin the credibility of consolidation strategies. A strong commitment to achieve the medium-term budgetary targets should allow for a rapid return to deficit levels compatible with a durable reduction in the government debt level in all Member States, which is also necessary to ensure that public debt does not compromise the economic recovery.

Besides a clear role for frontloading in the case of certain countries, the credibility of fiscal consolidation in all Member States is enhanced through the permanent nature of the measures adopted and their being embedded in a comprehensive strategy of structural reform. Concerning the composition of adjustment, the magnitude of the required correction means that it is likely that a combination of spending and tax measures will be necessary. While expenditure-based consolidation usually yields better results in terms of enhancing medium-term growth dynamics, tax-based fiscal consolidation may also assist in achieving structural fiscal adjustment objectives. Ministers commit to strengthen national budgetary frameworks.

Specifically, in order to ensure confidence in the sustainability of public finances and thereby financial stability, Ministers commit to:

- gear national fiscal strategies to stabilising government debt ratios as a first step towards their subsequent reduction and re-establishing and maintaining sizeable primary surpluses over the medium term;
- achieve the announced budgetary targets for 2010 and 2011 in nominal terms, which have recently been strengthened significantly in a number of countries, and implement, where and when necessary, additional measures to that effect;
- frontload consolidation based on measures which should be of a permanent nature and be supportive of the economic recovery, focusing on expenditure adjustment to the extent possible;
- pursue fiscal consolidation beyond 2011 to correct excessive deficits in line with commitments and thereafter attain MTOs as part of a comprehensive medium-term adjustment strategy;
- strengthen national budgetary frameworks against the agreed benchmarks to underpin the credibility of the budgetary targets and to better reflect the obligations of budgetary discipline undertaken under the Stability and Growth Pact at EU level;
- pursue structural reforms, notably in the area of pensions, the labour market, product markets and the services sector to ensure the long-term sustainability of public finances and to increase the growth potential of the economy and its resilience to crises.

Ministers are committed to fully and strictly implement the surveillance framework defined by the SGP and to contribute actively to the Task Force set up by the President of the European Council, which will consider ways to strengthen the fiscal surveillance framework as well as the surveillance of competitiveness developments in the euro area.