Eurogroup
The President

Brussels, 16 December 2019
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To the members of the Eurogroup

Subject: Eurogroup meeting of 4 December 2019

Dear colleagues,

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

The Commission was represented by Vice-President Valdis Dombrovskis and Commissioner Paolo Gentiloni, whom we welcomed for his first Eurogroup meeting. Our meeting was also attended by ESM Managing Director Klaus Regling, President of the ECB Christine Lagarde and ECB Executive Board Member Benoît Coeuré. As Mr Coeuré's term is drawing to a close this month, we took the opportunity to thank him for his valuable contributions over the years.

1. Greece – Fourth enhanced surveillance mission

We discussed the implementation of the reform commitments by Greece based on the fourth enhanced surveillance report, published by the Commission on 20 November.

We welcomed the confirmation by the institutions that Greece is projected to comfortably meet the primary surplus target of 3.5% of GDP for 2019, and the adoption by Greece of a budget for 2020, projected to ensure the achievement of the primary surplus target and including a package of growth-friendly measures aimed at reducing the tax burden on capital and labour. We also welcomed the significant progress made with broader structural reforms, notably in the area of the labour market, digital governance, investment licensing and the business environment.

We took note of the medium-term risks and challenges identified in the report and agreed on the importance of maintaining, and where necessary accelerating, reform momentum going forward.

On this basis, we agreed that the necessary conditions were in place to confirm the release of the second tranche of policy-contingent debt measures. The transfer of SMP-ANFA income equivalent amounts and the reduction to zero of the step-up interest margin on certain EFSF loans, worth EUR 767 million in total, is expected to be approved by the EWG and the EFSF Board of Directors, subject to national procedures.

As a next step, the relevant legal documentation would be circulated to Member States with the request to complete national procedures as soon as possible. The ESM and EFSF governing bodies will be informed by the President of the EWG on the outcome of these procedures.

We agreed on a Eurogroup statement, enclosed in annex.

2. Cyprus – Post Programme Surveillance

We were debriefed by the Commission and the ECB on the main findings of the seventh post-programme surveillance (PPS) mission to Cyprus and by the ESM on its early warning system. The IMF also presented the results of its recent Article IV mission to Nicosia. We welcomed the good economic and fiscal performance of Cyprus. We concurred that further progress is necessary in implementing structural reforms, in the effective enforcement of claims and the workout of NPLs.

3. Spain – Post programme surveillance

We were informed by the Commission and the ECB about the main findings of the twelfth post-programme surveillance mission to Spain, and by the ESM on its early warning system. We welcomed the positive macroeconomic developments, the performance of the labour market and the stability of the financial sector. Some challenges remain, notably specific challenges in the financial sector. The high debt levels, albeit on a declining path, should be taken into account when designing economic policies.

4. 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 opinions on the nineteen draft budgetary plans and of its overall assessment of the budgetary situation and prospects for the euro area as a whole. The Commission highlighted the improvements in the fiscal performance in the euro area as a whole, as well as the need for differentiated fiscal policies in individual Member States going forward.

On this basis, we discussed our draft budgets and the priorities for the year ahead. We broadly shared the Commission’s assessment. We echoed the Commission’s concerns about the slow pace of debt reduction in some Member States and risks to compliance with the SGP. We welcomed that some other Member States have started using their favourable budgetary situation to boost investment and plan to do so further, while preserving the long-term sustainability of public finances.

We agreed that, if downside risks were to materialise, fiscal responses should be differentiated, taking into account country-specific circumstances and avoiding pro-cyclicality to the extent possible. The Eurogroup stands ready to co-ordinate.

We endorsed a Eurogroup statement to communicate the outcome of our discussions, enclosed in annex.

5. Draft Eurogroup work programme I-2020

We endorsed the Eurogroup work programme for the first half of 2020 (link).

6. (Re-)Appointment of the President of the Eurogroup Working Group

The Eurogroup appointed Hans Vijlbrief for a second term as President of the Eurogroup Working Group starting on 1 February 2020 and lasting until 31 January 2022, following the election in the Eurogroup Working Group on 26 November 2019.

Yours sincerely,

Mário CENTENO

Annex

1. Eurogroup Statement on Greece, 4 December 2019

The Eurogroup discussed the implementation of the reform commitments by Greece based on the fourth enhanced surveillance report as published on 20 November.

We welcome the confirmation by the institutions that Greece is projected to comfortably meet the primary surplus target of 3,5% of GDP for 2019. We also welcome the adoption of a budget for 2020, which is projected to ensure the achievement of the primary surplus target and which includes a package of growth-friendly measures aimed at reducing the tax burden on capital and labour. Greece has also made significant progress with broader structural reforms, notably in the area of the labour market, digital governance, investment licensing and the business environment. Furthermore, we take note of the medium-term risks and challenges identified in the enhanced surveillance report. It will be crucial for Greece to maintain, and where necessary accelerate, reform momentum going forward, including through determined implementation of reforms on all levels.

Against this background, we welcome that the Greek authorities reiterated their general commitment to continue the implementation of all key reforms adopted under the ESM programme, especially as regards the reduction of arrears to zero, recruitments in the public sector and privatisations.

We also welcome the firm commitment of the Greek authorities not to extend beyond April 2020 the current scheme for the protection of primary residences and welcome the intention to proceed with a broad reform of the insolvency framework by end-April 2020. The new framework should aim at ensuring an appropriate enforcement of all collateral, which would help normalise the banking sector’s credit provision to the economy. It will also be crucial to continue and strengthen the implementation of other financial sector reforms, especially with regard to the clearance of state loan guarantees on an expedited basis, clearing of the household insolvency backlog at the courts and further improvements to the framework for e-auctions. These will continue to be monitored in the context of enhanced surveillance.

Against this background, the Eurogroup welcomes the assessment by the European institutions that Greece has taken the necessary actions to achieve its specific reform commitments for mid-2019, in the context of advancing a broader reform agenda, and that the necessary conditions are in place to confirm the release of the second tranche of policy-contingent debt measures. Subject to the completion of national procedures, the EWG and the EFSF Board of Directors are expected to approve the transfer of SMP-ANFA income equivalent amounts and the reduction to zero of the step-up interest margin on certain EFSF loans worth EUR 767 million in total.

The Eurogroup gives a mandate to the European institutions to initiate technical work on the possible use of ANFA and SMP income equivalents to reduce gross financing needs or to finance mutually agreed investments, in line with the agreed fiscal targets and the June 2018 Eurogroup statement.

Our next discussion on Greece will be based on the fifth enhanced surveillance report expected to be issued in February 2020.

2. Eurogroup Statement on the Draft Budgetary Plans for 2020

The Eurogroup welcomes that all 19 Member States have submitted Draft Budgetary Plans (DBPs) for 2020. On 20 November, the Commission provided in-depth individual assessments and Opinions, together with an analysis of the budgetary situation in the euro area as a whole.

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 Belgium, Austria, Portugal and Spain submitted DBPs on a no-policy-change basis. We invite them to submit the updates of their DBPs as soon as possible, to ensure compliance with the SGP. We look forward to the Commission assessment of those updates.

The euro area's growth outlook, while remaining positive, has weakened over the past year. While the solid performance of the labour market has helped to sustain private consumption and domestic demand, the euro area economy is facing an elevated level of uncertainty. If downside risks were to materialise, fiscal responses should be differentiated, taking into account country-specific circumstances and avoiding pro-cyclicality to the extent possible. The Eurogroup stands ready to co-ordinate.

According to the Commission autumn forecast, following the slowdown in economic activity, the aggregate deficit in the euro area is expected to rise from 0.5% in 2018 to 0.8% of GDP in 2019 and to 0.9% of GDP in 2020, reversing the declining trend of recent years. Aggregate debt in the euro area is set to continue to be on a downward path, from about 88% of GDP in 2018 to about 85% of GDP in 2020, mainly thanks to the continued low interest rate environment and planned primary budget surpluses.

The Eurogroup underlines that Member States are in very different budgetary situations. Despite the current economic conditions, there is still a need to rebuild fiscal buffers in Member States that have not reached their Medium-Term Budgetary Objectives (MTO). The Eurogroup reiterates 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, including by making use of windfall gains from low interest rates. In this context, the continued fiscal expansion or limited structural fiscal adjustment expected in some Member States in 2020 is worrying, in particular when coupled with high medium-term sustainability risks. The Eurogroup recalls in this context that the focus on sufficient debt reduction and the adjustment towards the MTO are an integral part of the Stability and Growth Pact (SGP). We welcome that, as invited, some Member States with a favourable budgetary situation have made use of it and plan to use it further to boost investment and 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. We concur on the fact that, in the context of policy design for 2020, a stronger emphasis should be given to reforms and investment in research and development, in digitalisation and on climate action.

The Eurogroup welcomes the fact that for the first time since 2002 no euro-area Member State is currently under the corrective arm of the SGP[1]. The Commission's compliance assessments for 2020 are thus made against the requirements of the preventive arm of the SGP. The Eurogroup recalls that country-specific recommendations adopted by the Council on 9 July 2019 include detailed and quantified fiscal policy guidance, taking into account the need to strengthen the growth potential and sustainability concerns.

The Eurogroup takes note that, according to the Commission assessment, eight Member States' plans are deemed to be at risk of non-compliance with the SGP in 2020: Belgium, Spain, France, Italy, Portugal, Slovenia, Slovakia and Finland. 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, Belgium, Spain, France and Italy are not expected to comply prima facie with the debt reduction benchmark in 2020. The Eurogroup invites all Member States whose DBPs are at risk of non-compliance with the SGP to consider in a timely manner the necessary additional measures to address the risks identified by the Commission and to ensure that their 2020 budget will be compliant with SGP provisions and welcomes their commitment to follow-up as needed.

[1] Only France is forecast to have a deficit above the 3% of GDP Treaty reference value in 2019. Based on the Commission assessment, that excess is temporary, close to the reference value, and solely due to a one-off impact of a single measure.

Based on the Commission assessment, two Member States' plans are deemed to be broadly compliant with the SGP in 2020: Estonia and Latvia. 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 nine Member States' plans are deemed to be compliant with the SGP in 2020: Austria, Cyprus, Germany, Greece, Ireland, Lithuania, Luxembourg, Malta and Netherlands. The Eurogroup also welcomes that some of the Member States that have outperformed their medium term objectives have plans to partly use their favourable budgetary situation in 2020 to boost investment and growth, while preserving the long-term sustainability of public finances.

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.