European Commission - Fact Sheet

Start of the 2017 European Semester: Autumn Package

Brussels, 16 November 2016

What does today's package include?

Today, the Commission presents:

- the 2017 Annual Growth Survey

- a Recommendation for a Council Recommendation on the economic policy of the euro area

- a Communication "Towards a positive fiscal stance for the euro area"

- the 2017 Alert Mechanism Report

- the 2017 draft Joint Employment Report

- the assessment of euro area Member States' Draft Budgetary Plans for 2017: a Chapeau Communication and individual Opinions for 18 euro area Member States (all except Greece) including the Assessment of action taken by Portugal and Spain, as well as analytical Staff Working Documents

This package sets out economic and social priorities for the EU, the euro area and the Member States' levels. It marks the start of the European Semester 2017 and will be discussed with the other EU institutions and stakeholders to set the scene for the coming year. Once agreed, this guidance should be reflected in the Member States' policies, in particular in their national programmes to be presented next spring.

What are the main priorities in the 2017 Annual Growth Survey?

In the 2017 Annual Growth Survey, the Commission calls on the Member States to redouble their efforts along the so-called virtuous triangle of economic policy – relaunching investment, pursuing structural reforms and ensuring responsible fiscal policies. The Annual Growth Survey builds on the messages emerging from the latest Commission forecast as well as evidence from the other reports of this package. This year, emphasis is placed on the importance of ensuring social fairness as a way to stimulate more inclusive growth, as well as on the need to strengthen competitiveness, innovation and productivity.

Read more about the Annual Growth Survey

Why does the euro area need a positive fiscal stance?

The fiscal stance is the orientation given to fiscal policy by governments' discretionary decisions on tax and expenditure. When looking at the euro area as a whole, also given the absence of a centralised budget or fiscal stabilisation function, there are no rules or instruments to manage directly the aggregate fiscal stance of the euro area. By contrast, monetary policy is conceived and designed as a single instrument.

This means that the overall fiscal policy of the euro area is the result of the aggregation of 19 individual fiscal policies. Whether this aggregation results in a euro area fiscal stance which is appropriate and consistent with monetary policy, is thus largely random.

To assess the current situation, it is important to consider the euro area as a single entity, as if there were a Finance Minister for the euro area as a whole, and to look at its fiscal policy in aggregate terms. This is the approach taken in this Communication.

At this point in time, the Commission considers that there is a case for a significantly more positive fiscal stance for the euro area. While there has been significant progress in recent years in the euro area, the recovery is still not accelerating, there is still significant unused capacity in labour and capital and uncertainty is high.

A positive fiscal stance refers both to the supportive, i.e. expansionary, direction that fiscal policy should take overall, and to the quality of the composition of the adjustment, in terms of repartition of efforts across countries and of the types of expenditure and/or taxes behind it. The Commission highlights that the effectiveness of fiscal policy to support the recovery is greatly helped by the current environment of low interest rates, and that the EU has put forward a number of initiatives, such as the tools of the Investment Plan for Europe, which can contribute to magnifying the effect of public spending on the real economy, by leveraging private investment and steering it towards quality projects.

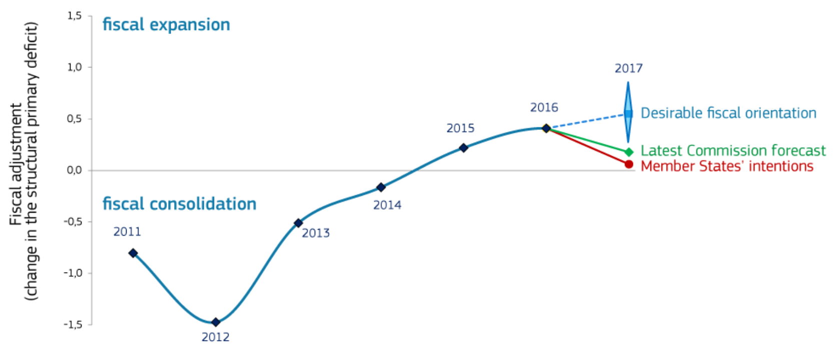
For instance, guarantees to the European Fund for Strategic Investments (EFSI) are a particularly effective way for Member States with fiscal space to make good on their commitments to do their part to support the recovery in the euro area.

What does a fiscal expansion of up to 0.5% mean?

Against the background of a resilient but modest economic recovery, the Commission is calling for a moderately expansionary fiscal stance for the euro area at this point in time. Based on estimates from the Commission services, a fiscal expansion of up to 0.5% of GDP at the level of the euro area as a whole is considered desirable for 2017 in the present circumstances.

This is more expansionary than the intentions of the Member States, as expressed in the draft budgets, and what the latest Commission forecast points to. This is also more than what a full delivery of the fiscal requirements contained in the Country-Specific Recommendations adopted by the Council in July 2016 would imply on aggregate, without taking account of the flexibility which exists within the rules.

Euro area fiscal stance over 2011-2017



While the direction for a desirable fiscal orientation is clear, the exact target for the change in the aggregate fiscal stance can be considered within a range and requires judgement.

A fiscal expansion of 0.3% would be the lower bound of the range: this would contribute to ensuring that the euro area halves its output gap in 2017, while being broadly compatible with the objective of fiscal sustainability. The output gap is the difference between the level of actual economic output and its potential.

However, such a stance may not be ambitious enough, especially since the estimates of the output gap are surrounded by uncertainty, and may therefore result in underestimating the need for stabilisation in the euro area.

By contrast, a fiscal expansion of 0.8% would represent an upper bound: it would allow for the output gap to be fully closed already in 2017. However, such a stance may be overly expansionary, since it may fuel undesirable overheating in some Member States and would add to fiscal sustainability concerns.

Therefore, a fiscal expansion of up to 0.5% of GDP represents a pragmatic and prudent target within this wider range of estimates: such an expansionary fiscal stance would reduce the share of unused productive capacity in the euro area, while supporting monetary policy and avoiding unnecessary overheating of the economy.

How do you intend to deliver this fiscal expansion?

Member States are in very different situations in terms of fiscal space or consolidation needs across the euro area, and delivering an appropriate fiscal stance for the euro area as a whole is a matter for the collective responsibility of the euro area Member States.

The findings of this Communication are reflected in the fiscal aspects of the Recommendation for a Council Recommendation on the economic policy of the euro area that is also part of this package. This Recommendation sets priorities for the euro area as a whole for 2017-2018 and will be discussed by the Eurogroup, the Council and the European Council. Since last year, the Commission has been presenting such Recommendation at the start of the European Semester, to strengthen the discussion of issues of collective interest to the euro area. This is also part of Stage 1 of the follow-up to the Five Presidents' Report on Completing Europe's Economic and Monetary Union ("deepening by doing").

From the perspective of the Commission, Member States in the Excessive Deficit Procedure and others still needing to progress towards their medium-term budgetary objective should continue to do so, as recommended to them. Member States with fiscal space should be encouraged to carry out a more expansionary fiscal policy, including by making full use of the tools of the Investment Plan for Europe in order to maximise the impact on the real economy, such as guarantees to the European Fund for Strategic Investments.

To support this process, the Commission will continue to apply the Stability and Growth Pact with the economic reading which the rules foresee, including taking account of the challenges and priorities of the euro area as a whole. This approach is also reflected in the opinions on the 2017 Draft Budgetary Plans of euro area Member States adopted today (see below).

In discussing the appropriate fiscal stance for the euro area, the Commission not only stresses the need for a moderately expansionary fiscal stance at the present juncture, but also links this with further progress in the pursuit of structural reforms and sound public finances, both in terms of sustainability and quality, especially for Member States with high levels of debt. This is why the Commission will also continue to engage with each euro area Member State in the context of the European Semester. It will also re-assess the situation regularly in light of its future economic forecasts, and stand ready to act more.

Draft Budgetary Plans assessment

The Commission has also completed its assessment of euro area Members States' Draft Budgetary Plans, taking into account its recent Autumn Economic Forecast and consultations with Member States. It adopted Opinions for 18 Member States today (all but Greece).

Regarding the fifteen countries in the preventive arm of the SGP:

- for five countries (**Germany, Estonia, Luxembourg, Slovakia and the Netherlands**), the DBPs are found to be **compliant** with the requirements for 2017 under the SGP.

- for four countries (**Ireland, Latvia, Malta, Austria**), the DBPs are found to be **broadly compliant** with the requirements for 2017 under the SGP. For these countries, the plans might result in some deviation from the adjustment paths towards each country's medium-term budgetary objective.

- for six countries (**Belgium, Italy, Cyprus, Lithuania, Slovenia, Finland**), the DBPs pose a **risk of non-compliance** with the requirements for 2017 under the SGP. The DBPs of these Member States might result in a significant deviation from the adjustment paths towards the respective medium-term objective. However, **Finland** has applied for use of the structural reform clause and investment clause. The Commission will take account of the uncertainty surrounding the output gap estimates when considering Finland's eligibility for the clause, which may in turn impact upon the assessment of compliance. In the case of **Lithuania**, the no-policy-change DBP included an application for use of the structural reform clause. The complete assessment of both Finland and Lithuania's possible eligibility for flexibility will take place within the normal European Semester cycle in the context of the assessment of the 2017 Stability Programme.

Regarding the three countries currently in the corrective arm of the SGP (i.e. in Excessive Deficit Procedure):

- for **France**, the DBP is found to be **broadly compliant** with the requirements for 2017 under the SGP, as the Commission 2016 autumn forecast projects that the headline deficit will be slightly below the Treaty reference value of 3% of GDP in 2017, although there is a significant shortfall in fiscal effort compared to the recommended level and the correction would not be durable in 2018 on the basis of unchanged policies.

- for **Spain**, the DBP is found to be at **risk of non-compliance** with the requirements for 2017 under the SGP. While acknowledging the no-policy-change nature of these projections, the Commission's forecast for 2017 projects that neither the intermediate headline deficit target, nor the recommended fiscal effort will be achieved.

- for **Portugal**, the DBP is found to pose a **risk of non-compliance** with the requirements for 2017 under the SGP, although the projected deviation exceeds the threshold for a significant deviation by a very narrow margin. The risks seem therefore contained provided the necessary fiscal measures are delivered. Portugal, which is currently under the corrective arm, is projected to respect the Treaty reference value of 3% of GDP this year, as recommended. It could become subject to the preventive arm from 2017, if a timely and sustainable correction of the excessive deficit is achieved.

Portugal and **Spain** submitted their DBPs by mid-October, as well as reports on action taken in response to the Council decisions to give notice, adopted on 8 August 2016 in accordance with Article 126(9) of the Treaty. The Commission has in the meantime assessed such documents and engaged in a structured dialogue with the European Parliament. The Commission has come to the conclusion that the Excessive Deficit Procedures of both Member States should be held in abeyance. Accordingly, the event that required a proposal by the Commission to suspend parts of the European Structural and Investment Funds is no longer present and there will be no such proposal.

For more information:

European Semester Autumn Package: Working for a stronger and more inclusive economic recovery

Fiscal Stance Communication

Annual Growth Survey 2017

Alert Mechanism Report 2017

Euro Area Recommendation 2017

Draft Joint Employment Report 2017

Communication on Draft Budgetary Plans of the euro area

Annex to the Communication on Draft Budgetary Plans

Draft Budgetary Plans, Commission Opinions and Staff Working Documents

Assessment of action taken by Portugal and Spain

MIP Compendium

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