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IN-DEPTH ANALYSIS

Economic Dialogue with the President of the Eurogroup

ECON on 29 November 2016

Jeroen Dijsselbloem, President of the Eurogroup, has been invited to a regular Economic Dialogue, in particular, in accordance with Article 2ab of Regulation 1466/97 as amended. This briefing provides an overview of the ongoing work of the Eurogroup as regards public finances, macro-economic imbalances, financial adjustment programmes and the banking union. Mr Dijsselbloem has been the Eurogroup President since January 2013. As the President of the Eurogroup, he is also chairing the Board of Governors of the European Stability Mechanism.

Executive Summary

Macroeconomic developments

- Euro area recovery has continued at a moderate pace over the first three quarters of 2016, driven predominantly by private consumption and investment. According to the Commission (COM) Autumn 2016 forecast, euro area real GDP growth is projected to stand at 1.7% in 2016 and remain little changed in 2017 (1.5%) and 2018 (1.7%).
- Risks to growth outlook have intensified and are tilted to the downside as Brexit-related risks added to pre-existing risks on both domestic and external side.
- Headline HICP inflation picked up to 0.5% in October 2016, reflecting increases in food and services prices, while the impact of negative base effects stemming from past decreases in energy prices has been progressively fading off. Underlying inflationary pressures (core inflation) have remained muted.

Public finances

- According to the COM autumn 2016 forecast, the general government deficit and the public debt ratio in the euro area are projected to decrease between 2016 and 2017. The fiscal policy stance, measured by changes in the fiscal structural balance, turned broadly neutral in 2015 after years of consolidation and is expected to remain so over the forecast horizon.
- The COM Opinions on the 2017 Draft Budgetary Plans (DPBs) of euro area Member States show that five countries are assessed to be compliant with the SGP, five are assessed to be broadly compliant with it and eight are judged to be at risk of non-compliance. The Eurogroup is expected to give its assessment of the DBPs on 5 December 2016.
- The COM concluded on 16 November 2016 that the Excessive Deficit Procedures (EDP) of Portugal and Spain should be held in abeyance due to effective action taken. However, Spain has to submit an updated DBP for 2017 to the COM and the Eurogroup, in principle at least one month before the 2017 Budget Law is adopted in Parliament.

2017 European Semester and Macroeconomic Imbalances

- On 16 November 2016, the COM launched the 2017 European Semester by publishing its autumn package consisting of Annual Growth Survey, Alert Mechanism Report, draft Joint Employment Report, Recommendations for the euro area, Communication on euro area fiscal stance and the COM opinion on draft budget plans for eurozone countries.

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- The 2017 Alert Mechanism Report (AMR) launches the sixth surveillance cycle in the context of the Macroeconomic Imbalance Procedure (MIP). It identifies ten euro area Member States that require an in-depth-analysis. Such analysis will allow the COM to establish whether macroeconomic imbalances exist and provide the economic analysis underpinning the country specific recommendations for 2017 and 2018.
- The COM published its recommendations for the economic policy of the euro area, inviting Member States to take action within the Eurogroup in 2017-2018. It focussed on the correction of imbalances related to both current account deficits or high external debt, and current accounts surpluses. It recommended a fiscal expansion of up to 0.5% of GDP for 2017, i.e. achieving a positive fiscal stance as measured by the change in the aggregated primary structural balance of the euro area Member States. The COM also recommended implementing structural reforms and making progress in the completion of the EMU, including the Banking Union.

Banking Union

- Following the June 2016 Council, the political discussions on the much debated third pillar of the Banking Union, namely the European deposit insurance scheme (EDIS), were put on hold in thd Council pending legislative proposals by the Commission on de-risking measures. The EP rapporteur presented her draft report in the Committee on 4 November 2016. A comprehensive legislative package covering the bulk of the expected de-risking initiatives was published by the Commission on 22 and 23 November 2016.
- As regards the 'sovereign-bank' link, the granular data that was recently disclosed by the European Banking Association in the context of the 2016 EU-wide stress test exercise shows a heterogeneous situation, as some of the large banks included in the sample still hold sizeable amounts of sovereign debt while the exposure of other banks is or has become very small.
- On non-performing loans, the Commission proposed on 22 November 2016 a new directive aimed at facilitating the early restructuring of businesses in financial difficulties, while the ECB has strengthened its supervisory practice on the matter.

Financial assistance

- On 7 November 2016, the Eurogroup called on the Greek authorities and the mission staff to continue their constructive cooperation and to finalise the second review rapidly. The Eurogroup is expected to further discuss Greece's progress under the adjustment programme as well as the ESM analysis on the possible debt relief measures for the short term on 5 December 2016.

List of annexes:

1. Key macro-economic indicators for the euro area
2. Euro area Member States' real GDP in historical perspective
3. Implementation of the 2015 and 2016 Council recommendations on the economic policy of the euro area
4. Overview the 2016 and 2017 recommendations on the economic policy of the euro area
5. Fiscal sustainability assessment by Member State
6. Euro area MIP scoreboard

1. Latest economic developments

Euro area recovery has continued at a moderate pace over the first three quarters of 2016 driven predominantly by private consumption and investment[1]**.** Private consumption has been supported by improving labour market conditions and low inflation, while investment has been the fastest growing component of GDP, reflecting supportive policy mix (accommodative monetary policy and broadly neutral fiscal stance) as well as policy initiatives, such as the Investment Plan for Europe. Public consumption has also positively contributed to growth on the back of a more growth-supportive fiscal policy stance at the euro area level[2] and refugee-related expenditures in several Member States (see Annex 1 for an overview table of the main euro area economic indicators). In this context, it is worth to point out that it took six years for the euro area to fully recover output losses triggered by the financial and economic crisis over the period 2008-2009 (euro area real GDP rose above its pre-crisis level for the first time in 2015 as shown in Annex 2[3]).

In its Autumn 2016 forecast, the COM expects (see Table 1 below) the euro area real GDP to stand at 1.7% in 2016 and remain little changed over the rest of forecast horizon (1.5% in 2017 and 1.7% in 2018). However, these figures mask large differences across Member States:

- Greece is the only euro area economy that is projected to mildly contract in 2016 (-0.3%). Yet the latest Greece's real GDP data, released by Eurostat shortly after the publication of the COM forecast, surprised on the upside (Greece's output rose by stronger-than-expected 0.5% q-o-q in the third quarter of 2016, expanding for a second quarter in row[4]);
- Real GDP growth is expected to be positive in all euro area Member States in both 2017 and 2018. In fact, Greece's economy is projected to return to growth in 2017 (2.7%) and continue to expand at a robust pace in 2018 (3.1%) on the back of a rebound in domestic demand as well as exports (see the COM country forecast);
- In 2016 and 2017, Ireland, Malta and Luxembourg are expected to be the fastest growing economies within the euro area. At the opposite side of the spectrum, Italy, Finland and Portugal are projected to grow at the slowest pace.

Table 1: Comparison of the Commission's forecasts for selected macroeconomic variables

	COM forecast	2016	2017	2018
		Real GDP growth		
Euro area	Autumn 2016	1.7	1.5	1.7
	Spring 2016	1.7	1.6	1.8
EU28	Autumn 2016	1.8	1.6	1.8
	Spring 2016	2.0	1.8	1.9
		HICP Inflation		
Euro area	Autumn 2016	0.3	1.4	1.4
	Spring 2016	0.0	0.2	1.4
EU28	Autumn 2016	0.3	1.6	1.7
	Spring 2016	0.0	0.3	1.5
		Unemployment		
Euro area	Autumn 2016	10.1	9.7	9.2
	Spring 2016	10.9	10.3	9.9
EU28	Autumn 2016	8.6	8.3	7.9
	Spring 2016	9.4	8.9	8.5

Source: European Commission (Spring 2016 and Autumn 2016 forecasts).

[1] According to Eurostat's flash estimate, euro area real GDP expanded by 0.3% (q-o-q) in Q3 2016, after respectively 0.3% and 0.5% (q-o-q) in the two previous quarters.
[2] See a separate EGOV note for more information on the concept of euro area fiscal stance.
[3] Note that, in 2015, euro area GDP was about 20% above its 1999 level (start of the third stage of the EMU - introduction of the euro).
[4] Technically speaking, two consecutive quarters of growth mark the end of recession.

Box 1: Eurogroup work programme for the second half of 2016

On 16 June 2016, the Eurogroup issued its indicative work programme for the second half of 2016. The agenda is mainly focused on sustainable economic growth and job creation. The Eurogroup will particularly encourage the implementation of structural reforms and sound fiscal policies. In particular, the Eurogroup is to:

- Keep a close focus on the fundamental reforms necessary to deliver growth and jobs in a sustainable manner. This ambition should be supported by the regular exchange of best practices and aiming at consensual benchmarking;
- Closely monitor Member States' efforts to ensure sound fiscal policies as well as the aggregate fiscal stance of the euro area and its composition. This includes the Eurogroup's involvement in the assessment of the 2017 Draft Budgetary Plans, providing thus for euro area-wide ex-ante budgetary coordination;
- Continue (1) reviewing the macro-financial assistance programme to Greece and (2) being involved in post-programme surveillance in Cyprus, Ireland, Portugal and Spain;
- Closely scrutinise financial and macroeconomic stability developments and macroeconomic imbalances within the euro area;
- Keep up the work on advancing and strengthening the Banking Union;
- Prepare Euro Summit meetings, in particular providing input to discussions on deepening of the EMU;
- Closely follow global economic developments;
- Maintain its efforts to offer enhanced transparency of its proceedings.

For an overview of Eurogroup's actions as regards follow-up and implementation of the Council 2015 and 2016 recommendations on the economic policy of the euro area, see Annex 3 of this briefing.

The COM considered that risks to growth outlook have intensified and are tilted to the downside as Brexit-related risks added to pre-existing risks on both domestic and external side. While the setup of relations between the UK and the EU still remains to be negotiated and implemented[5], the COM sees Brexit-related risks predominantly on the downside reflecting (1) possible anticipation effects related to the upcoming negotiations; (2) an extended period of uncertainty could also magnify the negative impact and (3) the UK 'leave' vote could also be seen as "*an indicator of increased political risks deriving from trends towards protectionism, de-globalisation, nationalism and isolationism in Europe and globally*" and therefore affect global trade outlook[6]. On the domestic side, the main downside risks relate to (1) the capacity of the banking sector to accompany an expansion of investments in the context of its low profitability; (2) the risk of the reversal of the process of structural reforms and adjustment of imbalances; (3) the risk of renewed tensions linked to lingering vulnerabilities in some economies and (4) the risk of being trapped in a low-growth, low inflation equilibrium. On the external side, predominant downside risks are stemming from (1) the risk of a hard landing in China or sudden stop in capital flows to emerging market economies; (2) slower-than-expected rebound in advanced non-EU economies; (3) risks of increased protectionism and (4) geopolitical tensions and security threats.

Headline HICP inflation picked up in the third quarter of 2016 from very low levels, reflecting increases in food and services prices, while the impact of negative base effects stemming from past decreases in energy prices has been progressively fading off. On monthly basis, annual HICP inflation reached its historic low of -0.6% in January 2015 but recovered quickly to hover around 0.0% until August 2016. Subsequently, it picked up to 0.4% in September 2016 and 0.5% in October 2016. However, this positive trend has not led to acceleration in underlying inflationary pressures that remained muted so far[7]. For 2016 as a whole, the COM projects headline inflation to increase to 0.3%, up from 0.0% in 2015 (in terms of annual data, this will be the first increase since 2012). Subsequently, headline inflation is expected to accelerate to 1.4% in both 2017 and 2018 in

[5] See a separate EGOV note for an analysis of third country equivalence in EU banking legislation and an EPRS briefing on Article 50 for an analysis from the legal perspective.

[6] In this respect, the COM pointed out that *"Although very short-term risks associated [with] the referendum have not materialised, all risks related to the negotiation process, the future situation (steady state), and the adjustment towards it, are likely to play out gradually and are unlikely to fully materialise until beyond the forecast horizon"*.

[7] Core inflation (headline HICP excluding energy and unprocessed food) has been oscillating between 0.7% and 1.0% since April 2015.

line with strengthening domestic demand and assumed increases in energy prices. Note that compared to the previous round of projections, the COM markedly revised its inflation outlook for 2017 (from 0.2% in spring 2016 to 1.4% in autumn 2016). The full implementation of the set of monetary policy measures of recent years is expected to ensure that monetary conditions remain accommodative over the forecast horizon.

Box 2: Structural policies for growth and jobs - Best practices, benchmarking and the role of the Eurogroup

The briefing paper by Enderlein, H and Haas, J (2016), prepared in advance of the Economic Dialogue with J. Dijsselbloem, President of the Eurogroup, analyses the role of the Eurogroup in European economic governance. This paper aims at (1) assessing the effectiveness of Eurogroup's thematic discussions and (2) suggesting how the legitimacy of Eurogroup actions and decisions could be strengthened, taking into account its new approach to transparency.

As to the effectiveness of the Eurogroup, the authors find that its thematic discussions are moderately effective in building consensus, but mostly ineffective in helping implement Council recommendations to the euro area as a whole and ineffective in monitoring reform implementation in the Member States. Furthermore, the important, and increasingly formal, tasks the Eurogroup has been assigned in the context of the European Semester are not mirrored in its working methods and legal foundations.

Regarding the Eurogroup's ability to promote structural reforms, the authors argue that:

- In its current form, benchmarking the performance of euro area Member States in certain areas of structural reform might do more harm than good to the extent that country-specific recommendations (CSRs) are not formulated in a way that makes progress measurable and the convergence process is not clearly defined;
- The monitoring role of the Eurogroup could be strengthened indirectly (for example, it could publish assessments of reform implementation in the euro area Member States);
- Strengthening the role of the Eurogroup president would increase the political weight of the office, making monitoring and hard coordination more effective;
- Clearly separating the informal from the more formal tasks of the Eurogroup, possibly even via separate meetings, might help preserve the spirit of cooperative exchange of information.

In respect of strengthening the Eurogroup's legitimacy, the authors conjecture that more formal and deeper involvement of the Eurogroup in the European Semester in the future would need to be matched by adequate democratic oversight. In this respect:

- While more transparency is a precondition for effective oversight, the latter does not solve all the problems as there is still no direct way for citizens and MEPs to challenge Eurogroup's decisions;
- National parliaments need to become more involved in the European Semester, either directly or by exerting strong control over the government's position in the Council;
- The role of the European Parliament (EP) should be strengthened by putting the Annual Growth Survey under the Ordinary legislative Procedure in the medium to long term;
- Neither the EP nor national parliments can fill the role of effectively monitoring economic coordination alone.

Finally, the authors conclude that if Europe wants successful economic governance, it needs an institution to effectively link the national and the European dimension of economic policy. The Eurogroup can fulfil this role, although the legal preconditions are not ideal. It has the potential to develop a strong presidency, and to play a role in the MIP. In the longer term, some of the weaknesses could be eradicated by merging the ECOFIN and the Eurogroup, thus combining the deep institutional ties of the former with the effective governance model of the latter. The distinction between formal and informal policy coordination might become more important and useful than the one between "Ins" and "Outs".

The unemployment rate has continued on its downward trend started in 2013 reflecting moderate recovery in the euro area. According to the latest COM forecast, the euro area unemployment rate is expected to decline from 10.9% in 2015 to 10.0% in 2016[8]. However, this aggregate figure mask large differences across Member States: at the low end of the spectrum, the unemployment rate is to edge down 4.4% in Germany in 2016, while on the other side, 19.7% and 23.5% of the workforce is projected to remain unemployed in Spain and Greece respectively. Looking ahead, the COM foresees faster reductions in the unemployment rate (9.7% in 2017 and 9.2% in 2018) in line with expectations of improving labour market conditions on the back of relatively job-rich recovery, moderate wage growth as well as fiscal policy measures and structural reforms implemented in some Member States.

Euro area current account surplus has been on an upward trend since 2009 but is projected to peak at 3.7% of GDP in 2016 as low commodity prices and a weak euro mitigated exceptionally weak foreign demand in the course of this year. The largest contributions have continued to come from Germany and the Netherlands, while France has continued to exhibit a small current account deficit. Looking forward, euro area current account surplus is expected to gradually narrow in 2017 (3.5% of GDP) and 2018 (3.3% of GDP) on the back of expected increases in commodity prices, modest appreciation of the euro and muted growth in extra euro area exports over the forecast horizon.

2. Public Finances

*In the area of public finances, the Council 2016 recommendations on the economic policy of the euro area (see Annex 4) include (1) the conduction of policies that support the recovery, foster convergence, facilitate the correction of macroeconomic imbalances and improve adjustment capacity; (2) the implementation of various specific labour and product market reforms and the reduction of the tax wedge on labour, particularly on low-earners, in a budgetary-neutral; (3) the conduction of fiscal policies in full respect of the SGP by finding a balance between long-term **fiscal sustainability** and short-term **macroeconomic stabilisation;** a review of the **euro area fiscal stance** in the context of the stability programmes and the draft budgetary plans.*

According to the COM Autumn 2016 forecast, **the general government deficit in the euro area is to decrease from 1.8% of GDP this year to 1.5% in 2017 and, under a no-policy-change assumption, remain at 1.5% in 2018.** This decline reflects falling unemployment-related transfers as labour market situation improves[9], wage bill moderation in the public sector and the lower interest expenditure. The debt ratio is projected to continue declining gradually from 91½% of GDP in 2016 to 89½% in 2018. This reduction derives from both higher primary surpluses and reduced interest expenditure, modest real GDP growth and the expected uptick in inflation.

The euro area aggregated fiscal policy stance, measured by changes in the structural budget balances (see Table 2 below) of the concerned Member States, turned broadly neutral in 2015 after years of consolidation and is expected to remain so over the forecast horizon. The COM issued on 16 November 2016 a Communication on the euro area fiscal stance (see Box 5 and a separate EGOV briefing for further information on the concept of the euro area fiscal stance) in which it inter alia recommends Member States with fiscal space 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.

Also on 16 November 2016, the COM issued its opinions on the 2017 DPBs: five countries (**Germany, Estonia, Luxembourg, the Netherlands and Slovakia**) are assessed to be compliant, five (**France, Ireland, Latvia, Malta and Austria**) are assessed to be broadly compliant and eight

[8] On monthly basis, the unemployment rate came in at 10.0% in the euro area and 8.5% in the EU28 in September 2016. These are the lowest observed rates since August 2011 and March 2009 respectively. The euro area (the EU28) youth unemployment came in at 20.3% (18.2%) in September 2016, as compared to a record high of 24.6% (24.0%) at the beginning of 2013.

[9] Automatic stabilisers, by design, operate symmetrically over the economic cycle, deteriorating (improving) general government balance during downswings (upswings).

(**Belgium, Cyprus, Spain, Italy, Lithuania, Portugal, Slovenia and Finland**) are judged to be at risk of non-compliance with their current obligations under the SGP. Overall, the assessment based on the 2017 DBPs is worse compared to last year's exercise: three further countries (**Belgium, Slovenia and Finland**) have moved from "broad compliance" towards "risk of non-compliance", only one country (**Austria**) in the opposite direction, and the same countries as last year are assessed to be compliant. The Eurogroup is expected to give its assessments on the 2017 DBPs in its meeting on 5 December 2016.

The COM also came to the conclusion that the **EDP of Portugal and Spain should be held in abeyance** and hence it will not propose to suspend parts of the European Structural and Investment Funds. However, the COM assessment on "effective action" also concluded that Spain has to "*submit an updated DBP for 2017 to the COM and the Eurogroup showing compliance with the requirements set out in the Council decision of 8 August 2016, in principle at least one month before the 2017 Budget Law is adopted in parliament*". Currently, Spain is not assessed to have taken "*effective action*" (since headline targets and structural effort for 2017 are projected to be missed), in contrast to Portugal; the COM proposal to hold the EDP procedure for Spain in abeyance "at this stage" is based on the projected achievement of the required headline deficit target in 2016. It takes account of the fact that it was a caretaker government which presented in the 2017 DBP no-policy-change projections for 2017. The COM will re-examine compliance with the requirements set out in the Council decision of 8 August 2016 once Spain has submitted an updated DBP for 2017.

A comparison of key features included in the 2017 DBP with the COM autumn 2016 forecasts shows that **most of the euro area Member States are more optimistic than the COM in their growth, debt, deficit and structural deficit projections** (see separate EGOV table)**.** Only Germany, Estonia, Malta and the Netherlands have less optimistic forecasts than the COM, i.e. countries that are overwhelmingly assessed by the COM to be in compliance with their current obligations under the SGP.

Box 3: Independent fiscal institutions

Legal background: In accordance with EU Regulation 473/2013, euro area Member States should have in place independent bodies which produce or endorse national medium-term fiscal plans and draft budgets as well as their underpinning macroeconomic forecasts. According to the same Regulation, the independent bodies shall be endowed with functional autonomy vis-à-vis the budgetary authorities of a Member State. Furthermore, the provisions to have such independent bodies are applicable to all EU Member States (except the UK) in accordance with Council Directive 2011/85/EU.

Implementation: There is no updated overview on mandate, resources and independence of independent fiscal institutions in the EU. The available information is the following:

- EGOV published in July 2016 an overview on the involvement of independent fiscal bodies in 2014-2016 Stability and Convergence Programmes, as reported by Member States;
- The last update of a COM database includes some information on the role and mandate of the independent fiscal institutions, but its content relates to 2013;
- The network of EU Independent Fiscal Institutions (IFI), while not publishing updated information on IFIs' mandate and resources, issued a position paper last 15th November 2015 on "Initiatives to strengthen the EU fiscal framework". With an aim at contributing to the reinforcement of the EU fiscal framework, while strengthening its ownership at national level, the paper puts forward three proposals: 1) cooperate with the recently created European Fiscal Board (EFB) in order to develop a set of minimum standards IFIs should comply with, ensuring that they have an adequate remit, a commensurate level of resources, good and timely access to information and a reinforced position through comply-or-explain procedures; 2) cooperate with the COM and the EFB in the preparatory work on streamlining the fiscal rules; 3) provide inputs as regards the enforcement and implementation of existing legislation on national fiscal frameworks.

Table 2 overleaf shows **changes in the structural balances as forecast by the COM and the structural efforts recommended by the Council under the SGP**. While this comparison indicates that only Germany, Luxembourg, Malta, Slovakia, the Czech Republic, Sweden and the United

Kingdom are in line with the recommended effort by the Council, it does not *prima facie* mean that the other countries would be in breach the respective Council recommendations. The assessment of compliance include other aspects than the change in the structural balance, such as: meeting nominal targets, prevalence of a period to correct an EDP and not only individual years, change in the primary structural balance (=structural balances adjusted by interest payments), the magnitude of deviations, bottom-up assessments of individual measures and careful analyses. For further information on the state-of play on the implementation of the SGP in the euro area and non-euro area Member States, please see a separate EGOV note.

Table 2: Structural efforts and commitments under the SGP in 2016 and 2017

Member State (MS)	SGP arm	Projected structural budget balance (sbb) or Projected change in annual structural budget balance (pp)		Structural effort recommended in order to adjust towards or remain at the MTO for MS under the preventive arm, or to correct excessive deficit for MS under EDP, based on Council decision under the SGP		EDP deadline (*corrective arm*) or MTO target year (*preventive arm*)
		2016	2017	2016	2017	
Euro area Member States						
BE	*preventive*	-0.1 pp	0.7 pp	0.6 pp	0.6 pp	*2018*
DE	*preventive*	0.6 sbb	0.4 sbb	Remain at MTO set at -0.5 sbb		*2012*
EE	*preventive*	0.6 sbb	-0.2 sbb	Remain at MTO set at 0.0 sbb		*2015*
IE	*preventive*	0.1 pp	0.7 pp	0.6 pp	0.6 pp	*2018*
EL	*corrective*	0.7 pp	0.0 pp	At least 10.0 pp cumulative in 2009-14		*2016*
ES	*corrective*	-1.0 pp	0.0 pp	-0.4 pp	0.5 pp	*2018*
FR	*corrective*	0.1 pp	0.2 pp	0.8 pp	0.9 pp	*2017*
IT	*preventive*	-0.5 pp	-0.5 pp	-0.25 pp	0.6 pp	*2018 or later*
CY	*preventive*	0.2 sbb	-1.3 sbb	Respect the MTO set at 0.0 sbb		*2016*
LV	*preventive*	-1.5 sbb	-1.7 sbb	Ensure limited deviation from MTO set at -1.0 sbb		*2015*
LT	*preventive*	-0.9 sbb	-1.4 sbb	Ensure limited deviation from MTO set at -1.0 sbb		*2015*
LU	*preventive*	1.9 sbb	0.4 sbb	Remain at MTO set at 0.5 sbb	Remain at MTO set at -0.5 sbb	*2016/17*
MT	*preventive*	1.1 pp	0.4 pp	0.6 pp	0.6 pp	*2019*
NL	*preventive*	-0.5 sbb	0.3 pp	Limit deviation from MTO set at -0.5 sbb	0.6 pp	*2015*
AT	*preventive*	-1.0 sbb	0.1 pp	Limit deviation from MTO set at -0.45 sbb	0.3 pp	*2015*
PT	*corrective*	-0.1 pp	0.0 pp	0.0 pp	-	*2016*
SI	*preventive*	-0.2 pp	-0.2 pp	0.6 pp	0.6 pp	*not available*
SK	*preventive*	0.3 pp	0.6pp	0.25 pp	0.5 pp	*2017*
FI	*preventive*	0.0 pp	-0.3 pp	at least 0.5 pp	0.6 pp	*2013*
Non-euro area Member States						
BG	*preventive*	0.6 pp	0.0 pp	0.5 pp	0.5 pp	*2015*
CZ	*preventive*	-0.2 sbb	-0.8 sbb	Remain at MTO set at -1.0 sbb		*2015*
DK	*preventive*	0.6 sbb	-1.4 pp	Remain/attain MTO set at -0.5 sbb	0.25 pp	*2013*
HR	*corrective*	-0.7 pp	-0.3 pp	0.7 pp	-	*2016*
HU	*preventive*	-0.7 pp	-0.3 pp	0.3 pp	0.6 pp	*2015/16*
PL	*preventive*	-0.5 pp	-0.3 pp	0.5 pp	0.5 pp	*2019*
RO	*preventive*	-2.6 sbb	-0.8 pp	Limit deviation from MTO set at -1.0 sbb	0.5 pp	*2015*
SE	*preventive*	-0.3 sbb	-0.3 sbb	Remain at MTO set at -1.0 sbb		*2012*
UK	*corrective*	0.7 pp	0.9 pp	0.5 pp (2015/16)	1.1 pp (2016/17)	*2016/17*

Sources: Council recommendations under the SGP (see EGOV documents "Country Specific Recommendations (CSRs) for 2015 and 2016" and "Implementation of the SGP (November 2016) ") and COM autumn 2016 forecast. Please note that the assessment on effective action follows a EU methodology which takes into account more aspects than the change in the structural balance and covers the whole period of the Council decision to correct the excessive deficit and not only individual years (see "Public Finances in EMU"). Abbreviations used in the table: pp indicates annual percentage point change in terms of GDP; sbb indicates annual budget balance in structural terms; and n.a. indicates that an explicit structural target for a given year is not available in the relevant Council recommendations.

In October 2016, the COM published report on Health Care and Long-Term Care Systems and Fiscal Sustainability and concluded that **12 Member States have an overall high medium-term fiscal sustainability risk (and debt sustainability risk)**. This report also shows that five Member States have a medium medium-term risk. Furthermore, one country has a high and 13 countries have a medium long-term fiscal sustainability risk (see Annex 5).

3. Macro-economic imbalances

In the area of macro-economic imbalances, the Council 2016 recommendations on the economic policy of the euro area (see Annex 4) include: policies that support the recovery, foster convergence, facilitate the correction of macroeconomic imbalances and improve adjustment capacity. To this end, Member States, particularly those with large stocks of private and foreign debt, should implement reforms that enhance productivity, foster job creation, raise competitiveness and improve the business environment. Member States with large current account surpluses should implement as a priority measures, including structural reforms, that help strengthen their domestic demand and growth potential.

On 16 November 2016, the COM published the 2017 Alert Mechanism Report (AMR) as part of its autumn package launching the 2017 European Semester. The 2017 AMR launched the sixth surveillance cycle in the context of the Macroeconomic Imbalance Procedure (MIP), aimed at preventing and correcting macroeconomic imbalances in the EU Member States.

On the basis of the MIP-scoreboard in the 2017 AMR (reflecting data up to 2015) and the economic reading of it, **the COM will undertake further in-depth-review (IDR) for ten Member States.**

In **February 2017, the COM will publish the country reviews**, including IDRs, to decide whether imbalances or excessive imbalances exist. For those countries where imbalances exist, the COM will carry specific monitoring activities and may propose country specific recommendations under the MIP procedure to be adopted by the Council. For countries that are assessed to experience excessive imbalances, the COM may propose opening the Excessive Imbalance Procedures (it would be the first time).

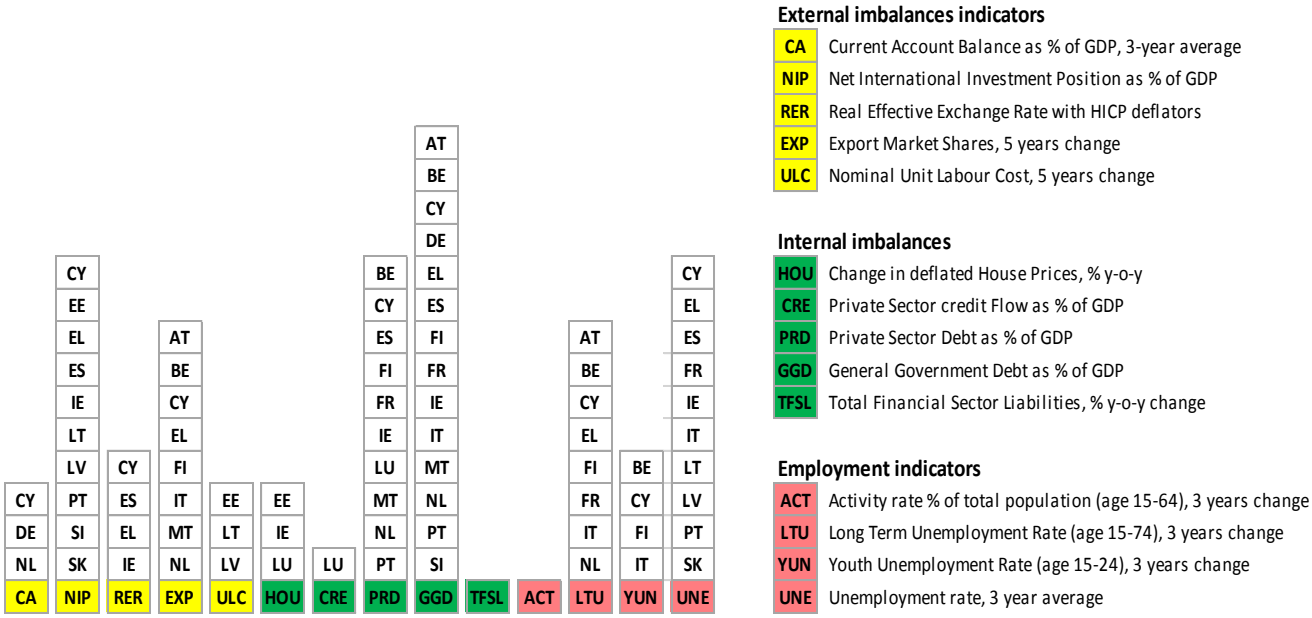
Based on the assessment **during the 2016 Semester cycle, ten euro area Member States were experiencing macroeconomic imbalances**:

- Four countries (Cyprus, Italy, France and Portugal) present excessive macroeconomic imbalances;
- Six countries (Ireland, Spain, the Netherlands, Germany, Slovenia and Finland) are experiencing macroeconomic imbalances;
- For Greece, the surveillance takes place in the context of the financial assistance programme.

For all the ten countries, the COM will undertake the in-depth review under the 2017 European Semester (see also a separate EGOV note on the current status of MIP implementation).

The COM's analysis of the macroeconomic situation points to the background of a continuing but still fragile economic recovery, with high uncertainties linked to geopolitical tensions.

Figure 1: MIP 2016 scoreboard indicator - Euro area Member States with values beyond the thresholds



Source: EGOV based on the Commission's AMR.

The Figure 1 above and the COM analysis show that:

- as far as the **current accounts and external positions** are concerned, the adjustment in countries with high external deficits or debt has made further progress, compared with previous years: even if stocks of foreign liabilities are high in some cases, almost all Member States have eliminated unsustainable deficits (only Cyprus shows a value beyond the threshold). In contrast, elevated current accounts surpluses continue in Germany and the Netherland.
- **Private debt** is decreasing, but at a slow and uneven pace, also because of the low nominal growth. Vulnerabilities emerge in particular when high private debt is combined with high **public debt** (as it is the case in Belgium, Spain, France, Cyprus and Portugal). The COM points to the fact that "*deleveraging is not always taking place where it is most needed, with some high-debt countries making slower progress in reducing their liabilities than low-debt countries*".
- **House price** strong increases are observed in some countries (Luxembourg, Ireland and Estonia). Even if they remain well below the growth rates observed in the mid-2000, they require close monitoring, especially in cases where such increases are observed in a context of likely overvalued prices and rising net credit to households.
- Compared with previous years, fewer Member States are experiencing a decrease of **export shares.**
- Some countries that present **signs of possible overheating in labour markets**, as shown by the Unit Labour Cost indicator deserve monitoring, but do not require a complete IDR (Estonia, Latvia, and Lithuania).
- Labour markets continue the recovery, but social distress persists in some countries. **Unemployment indicators** are showing a convergence among countries, but there are still very high unemployment rates and stagnant labour incomes, especially in the countries hardest hit by the financial and debt crises.

Box 4: The euro area dimension of macroeconomic imbalances and the recommendations on the economic policy of the euro area

In line with the COM Communication "On steps towards completing Economic and Monetary Union", the 2017 AMR provides a systematic analysis of the **euro-area implications** of countries' imbalances and how such implications require coordinated policy responses.

At the aggregate level, the euro area is posting a **current account surplus**, which is the largest in the world: from 2014 to 2015, it increased by 0.8 percentage point of GDP to 3.3% of GDP, and is expected to increase again by 0.4% this year. Such surplus largely reflects an excess of domestic savings over demand, in particular investment. Looking forward, the large and growing current euro area surplus could contribute to put upward pressure on the external value of the euro, thereby contributing to the persistence of low inflation. The COM's analysis of the output gap shows negative values since 2009, which remains below 1%: this underpins the low level of inflation and creates difficulties for deleveraging the high private and public debts. The COM note that the asymmetric nature of the rebalancing in the euro area, with only net debtor countries correcting their imbalances, which results in an increasing surplus.

The COM notes that the **financial sector** is facing a number of challenges, in a situation where remarkable differences among Member States persist. Profitability of banks is below pre-crisis level, exacerbated by the high levels of non-performing loans in some countries, and the combination of these factors could limit the room for credit expansion.

Labour market conditions continued to improve in 2015, but the unemployment rate in the euro area remains higher that in the EU as a whole. However, the rates of long-term unemployment and youth unemployment remain high, while poverty has stabilised at a high level in several Member States. Despite some progress with reforms to improve the resilience and adjustment capacity of labour markets, significant differences persist across the euro area, which continue to challenge the smooth functioning of the euro area.

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On the basis of the analysis presented in the 2017 AMR, the COM proposes recommendation on the economic policy of the euro area (see Annex 4). According to the COM, the current situation, characterized by the persistent investment gap and the high level of unemployment, creates risks of further reducing growth prospects. The COM calls euro area member States, individually and collectively, to use all policy tools - fiscal and structural - to achieve strong, sustainable, balanced and inclusive growth. More specifically:

- Euro area Member States should better coordinate the implementation of structural reforms, including those needed to complete the EMU: this can create positive spillovers among Member States.
- Euro area Member States should enact a strong coordination of national fiscal policies, based on common rules, in order to achieve an appropriate aggregate fiscal stance and for the proper functioning of the monetary union. The COM recommends an expansionary fiscal stance for the euro area as a whole of 0.5% of GDP. Member States with fiscal space should support domestic demand and quality investments, including cross-border ones.
- Member States should implement reforms to improve the resilience and the adjustment capacity of labour markets, including changes in employment protection legislation that provide flexibility and security for both employees and employers; enhancement of skills by improving the education systems; effective labour market policies to help the unemployed; adequate social protection schemes and equitable tax systems.
- Member States should complete the Banking Union, in particular by adopting a common deposit insurance scheme and a common backstop for the Single Resolution Fund.
- Finally, the COM recommends euro area Member States to advance progress on the initiatives presented in the Five Presidents' Report on completing the Economic and Monetary Union. In this regard, the COM notes progress on the National Productivity Boards and the European Fiscal Board, as well as the ongoing work to improve transparency and reduce the complexity of fiscal rules.

Box 5: Euro area fiscal stance

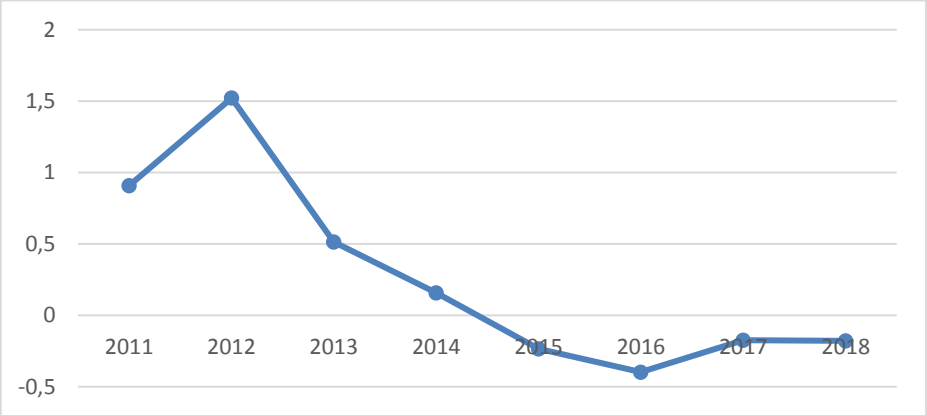
The concept of "fiscal stance" is used to measure the impulse of government's discretionary decisions on public finances, by excluding from the nominal general government budget balance the changes in expenditures and revenues that depend on the economic cycle. It is defined as the change in the general government's primary structural balance: if the difference is negative, then the fiscal policy is expansionary, and vice versa. For the euro area as a whole, the fiscal stance is calculated as the sum of the national fiscal stances.

The current EMU governance framework does not contain rules or instruments that allow the direct management of the euro area fiscal stance: this represents a major difference when compared to fiscal federations. In the EMU, fiscal policies are a national responsibility: according to the Treaty, they are simply to be considered as a matter of common concern and coordinated.

Nevertheless, in the EU legislation, the concept of euro area fiscal stance appears in the Regulation on draft budgetary plans, adopted in 2013 (as part of the Two-pack). It reads: "*The Commission shall make an overall assessment of the budgetary situation and prospects in the euro area as a whole, on the basis of the national budgetary prospects and their interaction across the area...It shall also, as appropriate, outline measures to reinforce the coordination of budgetary and macroeconomic policy at the euro area level... The Eurogroup shall discuss opinions of the Commission on the draft budgetary plans and the budgetary situation and prospects in the euro area as a whole on the basis of the overall assessment made by the Commission...*"

The ECB recently noted that "*as at the national level, the appropriate aggregate fiscal stance would seek a balance between the* (fiscal) *sustainability and the* (macroeconomic) *stabilisation objectives*". The IMF stated that the slightly expansionary euro area fiscal stance for 2016 seems appropriate, but that the fiscal effort should be differentiated by individual Member States, in compliance with the requirements under the SGP.

Chart 1: The Euro area fiscal stance, 2011-2018



Source: Commission Autumn 2016 forecast (Ameco database)

Chart 1 shows the evolution of the aggregated fiscal stance in the euro area during last years: the fiscal policy had been contractionary until 2013. According to the latest Commission forecast, the euro area fiscal policy is expected to turn slightly expansionary in 2016 and remain broadly neutral over the rest of the forecast horizon.

For more information, see a separate EGOV note and three external experts' papers on "The euro area fiscal stance: definition, implementation and democratic legitimacy" (Bénassy-Quéré; Ademmer, Boeing-Reicher Boysen-Hogrefe, Gern and Stolzenburg; and Giavazzi).

4. Banking Union

4.1 Completing the Banking Union

Work programme of the Eurogroup for the second half of 2016: '*The Eurogroup will continue to pay close attention to financial stability in the euro area. In this respect, it will keep with the work on advancing and strengthening the Banking Union'*.

On 24 November 2015, the COM proposed a European Deposit Insurance Scheme (EDIS) as the third pillar of the Banking Union. Three successive stages are envisaged in the Commission proposal: a reinsurance scheme (starting in 2017) during a first period of three years, a co-insurance scheme during a second period of four years and finally, full insurance for credit institutions in the steady state. In the Communication accompanying the legislative proposal, the COM identified a number of risk reduction measures presented as counterbalancing measures. The timing and sequencing of the risk reduction measures were however not specified for all measures (See separate EGOV briefing).

The June 2016 Council roadmap called on the Commission to table legislative proposals covering a number of risk reduction measures by the end of 2016. These de-risking measures were presented as preconditions to resume political negotiations on the EDIS- while work at technical level would continue. These de-risking measures should cover the following issues: i) banks' loss-absorbing capacity, making the European requirement (minimum requirements for own funds and eligible liabilities, MREL) and the international requirement (total loss-absorbing capacity, TLAC) compatible; ii) the harmonization of banks'creditor hierachy to facilitate cross-border resolution; iii) the harmonization of the remaining national options and discretions in banking regulation; iv) the implementation of the remaining Basel reforms (leverage ratio, net stable funding ratio), v) the harmonization of insolvency law.

On 22 November 2016, the Commission tabled a proposal on insolvency regimes and on 23 November 2016 it released a comprehensive banking package covering MREL/TLAC, the hierachy of banks creditors and the remaining Basel reforms, covering thus the bulk of the expected de-risking measures.

The European Parliament has made progress in its internal process. The rapporteur E. de Lange published her draft report on EDIS on 4 November 2016. The report proposes a de-risking process in parallel to the setting-up of EDIS with clear conditions. A two-step approach is prposed, i.e a reinsurance phase (that would be introduced in 2019 only) and an insurance phase. This second and final phase would only be introduced after the fulfillment of certain de-risking conditions specified in the report, including '*proper consideration (...) of international standards on the prudential treatment of sovereign debt held by credit institutions* (…)'.

4.2 Tackling the sovereign-bank nexus

On 29 July 2016, the European Banking Authority (EBA) published the results of its latest EU-wide stress test exercise both at aggregate and individual level. Among the 51 participating banks from 15 EU and EEA countries where 37 significant banks that are directly supervised by the supervisory arm of the European Central Bank.

The granular data disclosed by EBA in the banks' individual results includes information on sovereign exposures. **One of the conclusions that can be drawn from that exercise is that the participating significant banks show very different, and in some cases very sizeable levels of exposure to the home sovereign** (see Table 3).

Table 3: Share of exposure to the home sovereign by bans included in the EBA sample

MS	Bank	Home Sovereign exposure* (mn EUR)	Total assets** (mn EUR)	Home sovereign exposure (percent)	Capital ratio CET1 (fully loaded)	Leverage ratio (fully loaded)
FR	La Banque Postale	101,337	228,156	44,42%	14.51%	3.75%
DE	NRW.BANK	42,612	155,302	27,44%	42.54%	11.73%
NL	N.V. Bank Nederlandse Gemeenten	33,996	139,568	24,36%	26.17%	2.70%
BE	Belfius Banque	27,985	140,560	19,91%	14.65%	4.90%
DE	Norddeutsche Landesbank Girozentrale	33,578	192,604	17,43%	12.09%	4.00%
DE	Landesbank Hessen-Thüringen Girozentrale	30,835	183,096	16,84%	13.11%	3.93%
ES	BFA Tenedora de Acciones	34,578	206,690	16,73%	13.74%	5.53%
IT	Banco Popolare - Società Cooperativa	19,154	117,962	16,24%	12.39%	4.74%
IT	Unione Di Banche Italiane S.p.A.	18,943	123,308	15,36%	11.62%	5.81%
IT	Banca Monte dei Paschi di Siena	26,159	174,141	15,02%	12.07%	4.93%
ES	Banco Popular Español	21,965	156,979	13,99%	10.20%	5.68%
DE	Bayerische Landesbank AG	32,136	230,635	13,93%	11.99%	3.59%
IE	Allied Irish Banks	14,506	104,731	13,85%	13.11%	7.80%
DE	Landesbank Baden-Württemberg	26,519	242,327	10,94%	15.98%	4.93%
ES	Criteria Caixa, S.A.U.	31,796	327,468	9,71%	9.65%	5.32%
BE	KBC Group	20,324	232,502	8,74%	14.88%	6.30%
IT	Intesa Sanpaolo S.p.A.	50,462	578,240	8,73%	12.47%	6.37%
ES	Banco Bilbao Vizcaya Argentaria	65,557	765,650	8,56%	10.27%	6.07%
DE	DekaBank Deutsche Girozentrale	8,444	107,185	7,88%	13.50%	4.36%
FR	Groupe BPCE	79,158	1119,456	7,07%	12.78%	4.47%
IT	Unicredit S.p.A.	65,347	969,922	6,74%	10.38%	4.37%
ES	Banco de Sabadell	13,691	212,406	6,45%	11.72%	4.85%
AT	Erste Group Bank AG	9,480	210,549	4,50%	12.25%	5.83%
IE	Bank of Ireland	4,776	117,573	4,06%	11.28%	5.74%
ES	Banco Santander	51,223	1358,254	3,77%	10.19%	4.73%
FR	Groupe Crédit Mutuel	22,379	633,898	3,53%	15.55%	6.24%
NL	Coöperatieve Rabobank	22,672	684,819	3,31%	11.97%	3.93%
DE	Commerzbank AG	15,987	529,291	3,02%	12.13%	4.54%
FR	Société Générale S.A.	35,648	1194,805	2,98%	10.91%	3.77%
FR	Groupe Crédit Agricole	41,661	1404,243	2,97%	13.68%	5.28%
DE	Deutsche Bank AG	35,281	1395,188	2,53%	11.11%	3.49%
NL	ABN AMRO Group N.V.	8,531	464,657	1,84%	15.44%	3.80%
AT	Raiffeisen-Landesbanken-Holding	2,891	163,150	1,77%	10.20%	4.47%
FR	BNP Paribas	22,008	1835,388	1,20%	11.05%	4.03%
NL	ING Groep N.V.	12,157	1073,000	1,13%	12.70%	3.93%
DE	Volkswagen Financial Services AG	0,987	113,341	0,87%	11.67%	11.13%
FI	OP Financial Group	0,921	113,895	0,81%	19.16%	6.96%

Sources: Banks' individual results published in the context of the EBA 2016 EU-wide stress test exercise, data as of 13 December 2015.

Note: * Gross direct long exposures (accounting value gross of provisions) as of 13 December 2015.
** Total leverage ratio exposures (fully loaded) as of 13 December 2015.

A recent **study** **by the European Systemic Risk Board points out that** "(...) *banks' domestic sovereign exposures in the stressed countries were indeed associated with a statistically significant and economically relevant amplification of sovereign risk transmission (...)*", and that "(...) *banks' domestic sovereign exposures are considerably larger now than in 2010-12, so that a future resurgence of sovereign stress would trigger proportionately larger effects on bank lending*."

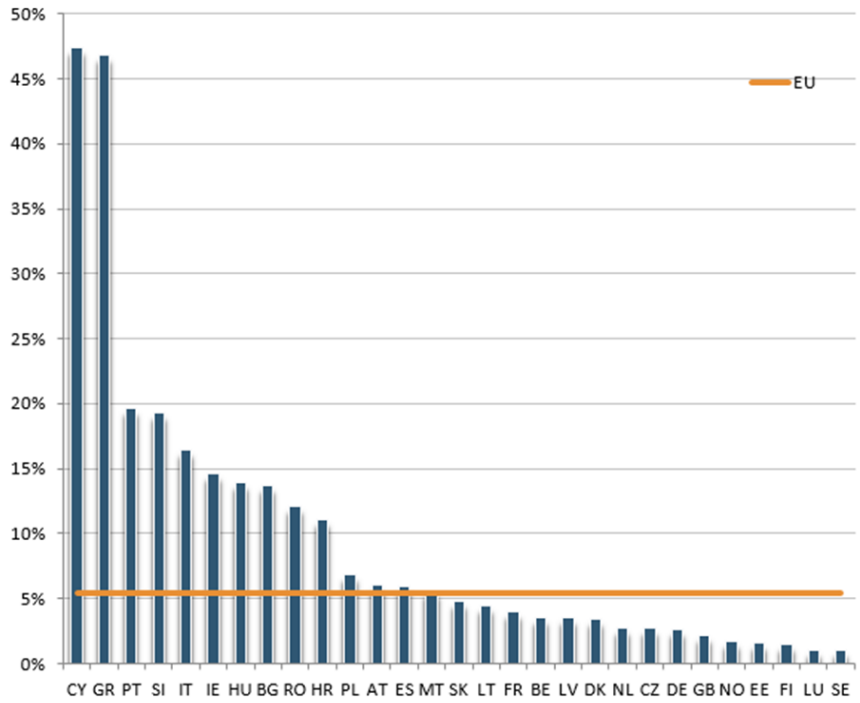
4.3 The challenge of NPLs in the EU

> *The 2016 CSR 4 for the euro area provides that the euro area shall 'facilitate the gradual reduction of banks' non-performing loans and improve insolvency proceedings for businesses and households'.*

According to the 2017 **AMR challenges linked tio the EU banking sector are mostly linked to profitability prospects, in addition to non-performing loans in a number of countries**. Retained earnings have been the main instrument to raise bank capital, but profitability remains low in most Member States and the build-up of low-yielding assets in a low-rate environment and the persistence of outdated business models is expected to further affect profitability going forward.

According to an IMF Staff Discussion Note published in September 2015, **NPL constitute a drag on economic activity, especially for countries that rely mainly on bank financing, as is the case in the euro area.** High NPL reduce profitability, increase funding costs and tie up bank capital, which negatively impact credit supply.

Figure 2: Non-performing loans ratio in EU Member States (June 2016)



Source: EBA risk dashboard.

The situation of NPLs differs markedly across Member States (see Figure 2). While the overall asset quality is improving the average ratio decreased from 6.5% in December 2014 to 5.5% in June 2016, some countries continue to report very high levels of NPLs: Greece (46.9%), Cyprus (47.4%), Portugal (19.7%, +50 bps), Slovenia (19.2%, -50bps) and Italy (16.4%, -20bps) continue to report NPL ratio over 15%. Five other countries (Ireland, Hungary, Bulgaria, Romania and Croatia) report NPL ratio between 10% and 15%. In particular, he situation is still deteriorating in Greece (+30 bps quarter-on-quarter) and Portugal (+50 bps quarter-on-quarter).

The Eurogroup conducted a thematic discussion in April 2016 and concluded that this issue is "*particularly relevant for the euro area, especially in addressing the debt overhang, and also because the euro area economies are prone to spill-over effects*". The Eurogroup agreed that a set of common principles and benchmarks would be useful to improve efficiency and effectiveness of those frameworks.

The COM published on 22 November 2016 its **proposal for a *directive* on preventive restructuring**

frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures and amending Directive 2012/30/EU[10]. The proposal aims at promoting early restructuring in order to streamline business insolvency procedures. The proposed directive sets common principles for early restructuring frameworks, in order to facilitate successful negotiations between businesses in financial difficulties and creditors at an early stage of the process. In particular:

- the debtor will be protected from enforcement actions by creditors during a four-month period (stay) in order to negotiate a restructuring plan with creditors;
- minority creditors and shareholders who do not agree with the proposed restructuring will no longer block it provided their legitimate interests are protected (subject to judicial or administrative approval);
- new and interim financing will benefit from special protection in order to ensure the continuation of the indebted business during the negotiations;
- employees' rights under EU law will be fully protected, and employees will have the right to vote on restructuring plans whenever their interests are affected;
- over-indebted entrepreneurs will be fully discharged of their debt after a maximum period of three years, subject to a number of conditions, in order to give them a second chance.

In the meantime on 12 September 2016, the **ECB published for consultation its guidance to banks on non-performing loans**: "*the guidance provides recommendations to banks and sets out a number of best practices that ECB Banking Supervision has identified and that will constitute the ECB's supervisory expectations going forward*". The consultation closed on 15 November 2016.

The ECB also touched upon the issue of NPLs in its latest Financial Stability Review, arguing that the establishment of so-called "bad banks" could facilitate the development of secondary markets for NPLs: "*In light of the identified externalities, public policy responses are warranted to reduce the cost and duration of debt recovery while also addressing information asymmetries between better-informed banks and potential investors. In certain circumstances the establishment of asset management companies (AMCs) may help to accelerate the value recovery process for banks, while avoiding adverse macroeconomic side effects".*

5. Financial Assistance Programmes

Work programme of the Eurogroup for the second half of 2016: *The Eurogroup will continue reviewing the adjustment programme in Greece. In spring 2016, Cyprus joined the ranks of those euro area Member States that have exited an overall successful macro-financial assistance programme. Accordingly, the Eurogroup will be involved in post-programme surveillance in Cyprus, Ireland, Portugal and Spain.*

5.1 The third macro-economic adjustment programme for Greece

Greece: The COM signed on 19 August 2015 (on behalf of the members of the euro area) a Memorandum of Understanding (MoU) with Greece for a third macro-economic adjustment programme of up to €86 billion. Moreover, the Greek authorities signed an agreement with the ESM to specify the financial terms of the loan. So far EUR 31.7 billion have been disbursed by the ESM. The second programme review is on-going and pertains to the 2017 budget, the medium-term fiscal strategy and labour market reform.

On 7 November 2016, the Eurogroup called on the Greek authorities and the mission staff to continue their constructive cooperation and to finalise the review rapidly. According to press reports (see for instance here), labour market issues seem to be a focus of the current discussions between the institutions and the mission staff, beside the topic how the IMF could participate in the third programme (see also Box 6). The Eurogroup is expected to further discuss Greece's progress under

[10] The Five Presidents Report had identified that harmonising national insolvency laws would be necessary to ensure integration of capital markets.

the adjustment programme as well as the ESM analysis on the possible debt relief measures for the short term on 5 December 2016.

Box 6: Latest institutional statements regarding the adjustment programme for Greece

In a statement of 7 November 2016, the Managing Director of the **ESM** reminded that in May 2016 the Eurogroup asked the ESM to look in the short-term measures aimed at reducing interest rate vulnerability of Greece. Three kinds of measures were mentioned: smoothening the repayment profile under the current average maturity; use the funding strategy to reduce interest rate risk for Greece; and finally, waive the step-up interest rate margin for 2017. Mr Regling said that he would present proposals to the Eurogroup in December, as the details were still being elaborated, even if there were progress in all the three areas. Furthermore, he reminded that some of these measures might imply additional costs upfront, before observing benefits later on. "*For example, if one has an interest rate swap – swapping shorter-term rates for longer-term rates. The costs go up in the short run, but there are savings in the longer term. But I'm optimistic that overall we can find solutions that will really have a visible positive impact on Greek debt sustainability*."

At the **IMF** press briefing of 27 October 2016, the spokesperson stated that the IMF is taking part in the discussions on the second review of the European Institutions in Greece. In parallel, the IMF is continuing discussions on a possible new program from the IMF that could be supported by a financial arrangement: such a support has been requested by the Greek authorities. In addition, there is also an explicit request from the European authorities that the Fund remains fully engaged.

The IMF considered as a positive development the fact that the first review of the ESM program had been completed. The IMF goal is an economic program that helps Greece get back on the path of sustainable growth and sustainable public finances. Poul Thomsen, the IMF Europe Director, outlined that the IMF can support a program based on a primary surplus target of 1.5% of GDP, accompanied by structural reforms and significant debt relief - the two legs that the IMF has often mentioned. "*If Greece and its European partners want to pursue a more ambitious fiscal target, we would need to see the reforms that make it add up. We do not think that the current program is consistent with those more ambitious targets over the medium and long term.*"

On the timing, the IMF expects to publish a new Debt Sustainability Analysis in the context of the Article IV consultation, planned for December 2016. One of the main point to address is the pension system, as the IMF sees it as still unsustainable: it has a deficit of 11% of GDP, compared to the average of 2.5% for the Euro Area, and is financed by high tax rates on a narrow basis.

For an overview of the DSA, as of September 2016, see a separate EGOV note.

5.2 Ex-post surveillance of Ireland, Portugal Spain and Cyprus

Ireland exited the 3-year-programme at the end of 2013 (see EC ex-post evaluation of July 2015) and is since then subject to Post-Programme Surveillance (PPS). The latest review mission was completed in June 2016. The mission staff concluded that Ireland has made significant progress, including a restoration of sustainable public finances, with very limited risk to its capacity to repay its outstanding EU loans. However, non-performing loans of domestic banks remain despite significant decreases among the highest in the EU, the share of long-term mortgage arrears remains elevated and procedural challenges in assisting collateral persist.

Portugal has been subject to PPS/EWS/PPM, after the government decided on 12 June 2014 to exit the programme without disbursement of the full amount of the assistance. The fourth PPS/EWS/PPM mission took place in June 2016. The EC staff concluded that the economic recovery is set to continue at moderate pace and the adjustment of the Portuguese banking sector is continuing. However, weak profitability, low efficiency and high level of non-performing loans remain a serious concern.

Spain The ESM programme for the recapitalisation of the Spanish banking sector expired on 31 December 2013. The sixth PPS/EWS visit took place in October 2016 (the mission focused on financial sector issues given the absence of a government with full legislative powers at that time). The mission staff concluded that the financial sector has continued to show a high degree of stability,

supported by low funding costs, the ongoing restructuring of the sector and the strength of the economic recovery.

Cyprus successfully exited from the ESM and IMF financial assistance programme in March 2016. The first PPS/EWS mission took place in September 2016. The EC staff noted that economic recovery has been stronger than expected and financial sector situation has improved, although the outstanding stock of non-performing loans still remains at a very high level. The government's 2016 primary surplus target is within reach, yet fiscal risks remain significant.

The European Court of Auditors provided in January 2016 an evaluation of the financial assistance provided to EU Member States, which have exited macro-economic adjustment programmes (Hungary, Latvia, Romania, Ireland and Portugal).

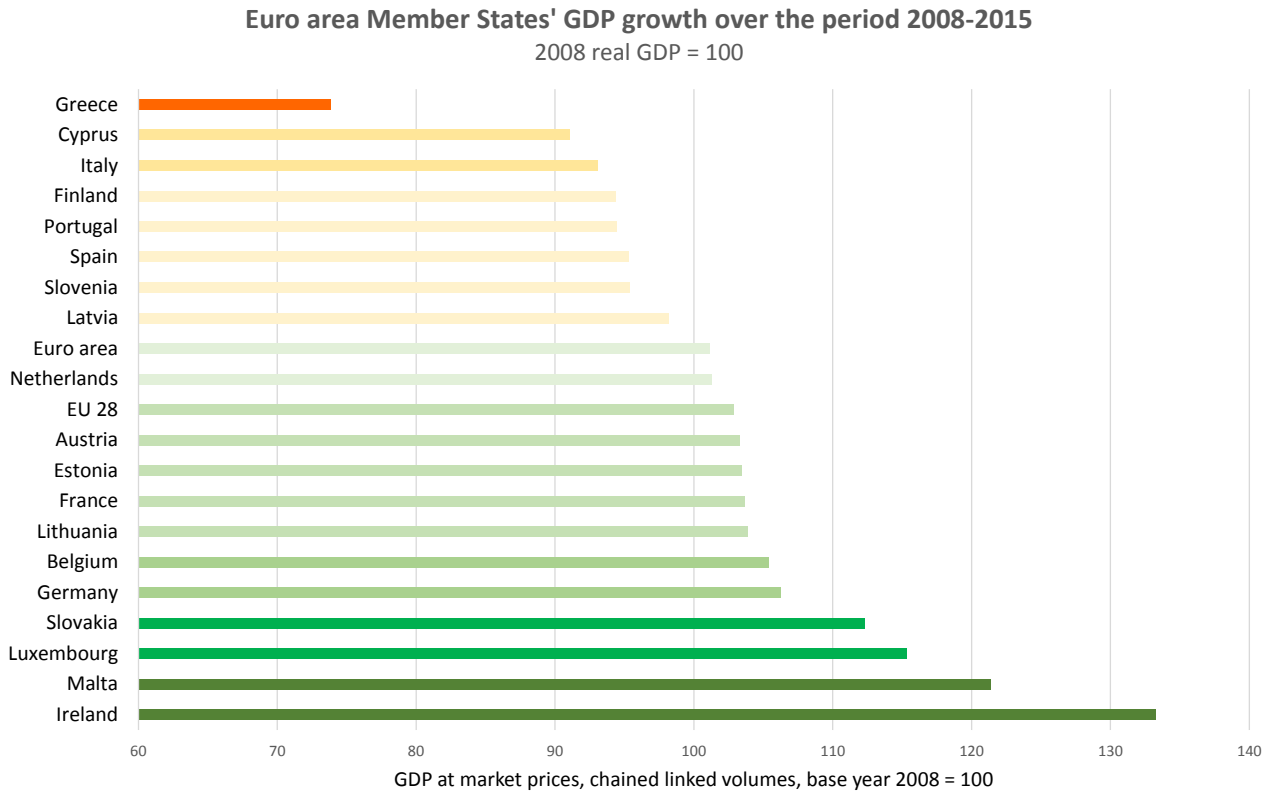
For more information on the state of play as regards financial assistance programmes, see a separate EGOV table.

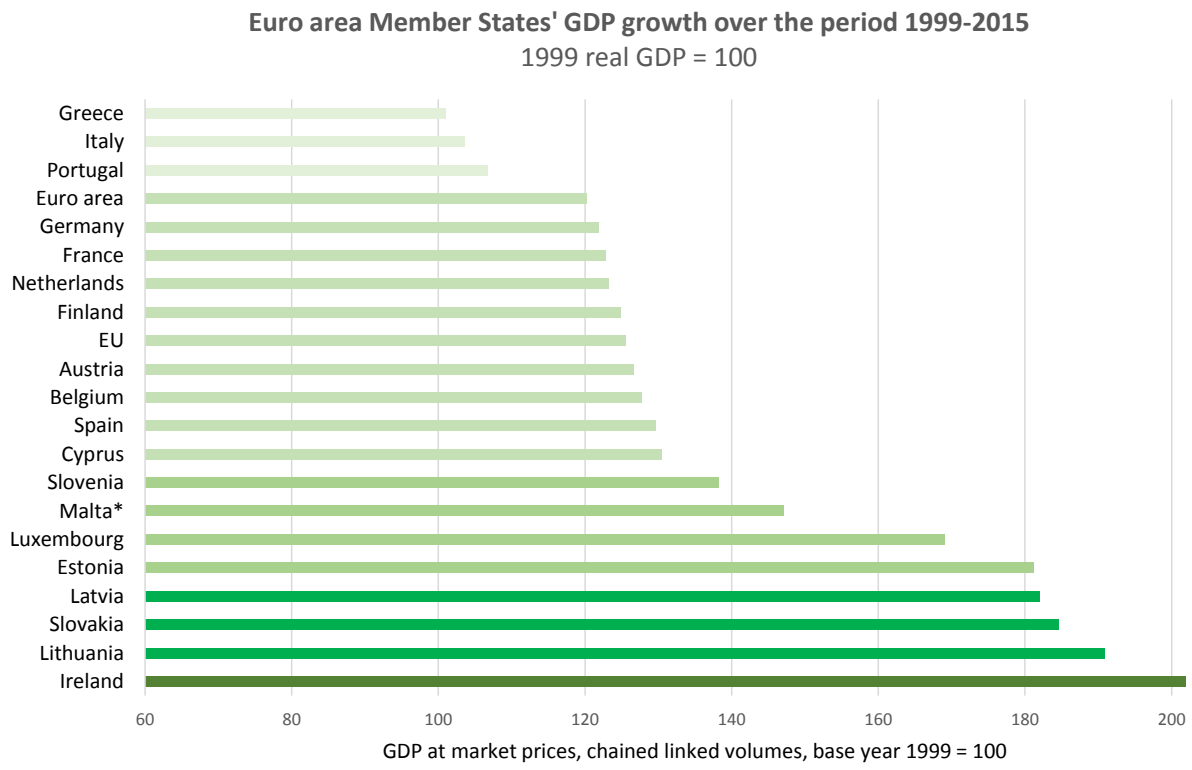
Annex 1: Key macro-economic indicators for the euro area

	2012	2013	2014	2015	2016[f]	2017[f]	2018[f]
Real GDP growth – *% change on previous year*							
EU 28	-0.5	0.2	1.6	2.2	1.8	1.6	1.8
EA	-0.9	-0.3	1.2	2.0	1.7	1.5	1.7
GDP per capita — *Purchasing power parities, Euro*							
EU 28	26,600	26,700	27,500	28,800	n.a.	n.a.	n.a.
EA	28,700	28,800	29,400	30,600	n.a.	n.a.	n.a.
General government budget balance – *% of GDP*							
EU 28	-4.3	-3.3	-3.0	-2.4	-2.0	-1.7	-1.6
EA	-3.6	-3.0	-2.6	-2.1	-1.8	-1.5	-1.5
General government structural budget balance* – *% of potential GDP*							
EU 28	-2.7	-1.8	-1.8	-1.6	-1.6	-1.6	-1.5
EA	-2.1	-1.4	-1.0	-1.0	-1.2	-1.3	-1.3
General government gross debt – *% of GDP*							
EU 28	83.8	85.7	86.7	85.0	86.0	85.1	83.9
EA	89.5	91.3	92.0	90.4	91.6	90.6	89.4
Interests paid on general government debt – *% of GDP*							
EU 28	2.9	2.7	2.5	2.3	2.1	2.0	1.9
EA	3.0	2.8	2.7	2.4	2.2	2.1	1.9
Inflation (HICP) – *% change on previous year*							
EU 28	2.6	1.5	0.5	0.0	0.3	1.6	1.7
EA	2.5	1.4	0.4	0.0	0.3	1.4	1.4
Unemployment – *% of labour force*							
EU 28	10.5	10.9	10.2	9.4	8.6	8.3	7.9
EA	11.3	12.0	11.6	10.9	10.1	9.7	9.2
Youth unemployment – *% of labour force (15 - 24 years)*							
EU 28	23.3	23.7	22.2	20.3	n.a.	n.a.	n.a.
EA	23.6	24.4	23.8	22.4	n.a.	n.a.	n.a.
Current account balance – *% of GDP*							
EU 28	0.6	1.1	0.9	1.1	1.5	1.5	1.6
EA	1.3	2.2	2.4	3.1	3.5	3.2	3.1
Exports – *% change on previous year*							
EU 28	2.3	2.2	4.4	6.2	3.0	3.5	4.2
EA	2.6	2.1	4.5	6.5	2.7	3.3	4.1
Imports – *% change on previous year*							
EU 28	-0.2	1.7	5.0	6.2	3.6	3.9	4.3
EA	-0.8	1.3	4.9	6.4	3.2	4.0	4.7
Total investments – *% change on previous year*							
EU 28	-2.5	-1.5	2.6	3.5	2.8	2.5	3.1
EA	-3.5	-2.5	1.4	3.2	3.3	3.1	3.5
Total investments – *% of GDP*							
EU 28	19.7	19.3	19.4	19.5	n.a.	n.a.	n.a.
EA	20.2	19.6	19.6	19.7	n.a.	n.a.	n.a.
General government investments – *% change on previous year*							
EU 28	3.1	3.0	2.9	2.9	n.a.	n.a.	n.a.
EA	2.9	2.8	2.7	2.7	n.a.	n.a.	n.a.
Total final consumption expenditure – *% change on previous year*							
EU 28	-0.4	0.0	1.1	1.9	n.a.	n.a.	n.a.
EA	-0.9	-0.4	0.8	1.7	n.a.	n.a.	n.a.
Households final consumption expenditure – *% change on previous year*							
EU 28	-0.6	-0.2	1.2	2.1	n.a.	n.a.	n.a.
EA	-1.2	-0.8	0.8	1.8	n.a.	n.a	n.a.
Income Inequality (Gini Coefficient) – *Scale 0-100: 0 = total income equality; 100 = total income inequality*							
EU 28	30.4	30.5	30.9	31.0	n.a.	n.a.	n.a.
EA	30.4	30.7	31.0	30.8	n.a.	n.a.	n.a.
Unit labour cost - nominal – *% change on previous year*							
EU 28	2.0	1.1	0.7	0.3	1.2	1.3	1.4
EA	2.9	0.3	1.2	1.9	1.0	1.2	1.3

Source: Eurostat (data extracted on 15 November/2016); (*) structural balance data is from DG ECFIN/AMECO; (f): forecasts are from the Autumn 2016 COM forecast.

Annex 2: Euro area Member States' real GDP in historical perspective





Annex 3: Implementation of the 2015 and 2016 Council recommendations on the economic policy of the euro area

This annex outlines the Eurogroup's actions as regards follow-up and implementation of the 2015 and 2016 EA CSRs based on information publicly available as of 21 November 2016.

2015 Council Recommendations 2016 Council Recommendations	Eurogroup policy actions
Structural reforms	
EA 2015 CSR 1: Use peer pressure to **promote structural reforms that facilitate the correction of large internal and external debts and support investment**. Regularly assess the delivery of reforms in those Member States which require specific monitoring within the framework of the Macroeconomic Imbalances Procedure. Continue the regular thematic assessment of structural reforms. By spring 2016, take decisions on the follow-up to the coordination exercise on reducing the high tax wedge on labour and on reforming services markets. **EA 2016 CSR 1:** Pursue policies that support the recovery, foster convergence, facilitate the correction of macroeconomic imbalances and improve adjustment capacity. To this end, Member States, particularly those with large **stocks of private and foreign debt**, are to implement reforms that enhance productivity, foster job creation, raise competitiveness and improve the business environment. Member States with **large current account surpluses** are to implement as a priority measures, including structural reforms, that help strengthen their domestic demand and growth potential.	On 11 July 2016, the Eurogroup held a broad **discussion on how to address structural and regulatory obstacles to investment,** both on the public and private side. On the public side, the discussion focused on the criteria for the investment clause, some statistical issues on how to deal with investments from public budgets. And on the private side it focused, on the basis of a Commission's paper, on a couple of areas where work should be done to improve the efficiency of public administration, the business environment, and sector-specific burdens that hinder further private investments. This discussion was complementary to broader, EU-wide initiatives to boost investment. Reviving investment is of particular importance to raise the short and long-term growth prospects of the euro area economy.
EA 2016 CSR 2: Implement reforms that combine: (i) **flexible and reliable labour contracts** that promote smooth labour market transitions and avoid a two-tier labour market; (ii) comprehensive **lifelong learning** strategies; (iii) effective policies to help **the unemployed** re-enter the labour market; (iv) adequate and sustainable **social protection systems** that contribute effectively and efficiently throughout the life cycle both to social inclusion and labour market integration; and (v) **open and competitive product and services markets**. Reduce the tax wedge on labour, particularly on low-earners, in a budgetary-neutral way to foster job creation.	The Eurogroup's (indicative) work programme for the second half of 2016 foresees no thematic discussion on this recommendation.

Public finances	
EA 2015 CSR 2: Coordinate fiscal policies to ensure that the aggregate euro area fiscal stance is in line with sustainability risks and cyclical conditions. This is without prejudice to the fulfilment of the requirements of the Stability and Growth Pact. By spring 2016, hold thematic discussions on **improvements in the quality and sustainability of public finances**, focussing in particular on the prioritisation of tangible and intangible investment at national and EU levels, and on making tax systems more growth friendly. Monitor the effective functioning of the recently strengthened national fiscal frameworks. **EA 2016 CSR 3:** Pursue fiscal policies in full respect of the SGP. For 2016, the objective of a broadly neutral aggregate fiscal stance in the euro area appears appropriate in order to reflect a balance between long-term **fiscal sustainability** and short-term **macroeconomic stabilisation**. Looking towards 2017, reduce public debt to restore fiscal buffers and avoid pro-cyclicality. Differentiate the fiscal effort by individual Member States, in line with their respective positions with regard to the requirements under the SGP while considering stabilisation needs, as well as taking into account possible spillovers across euro area Member States. To this end, review the **euro area fiscal stance** in the context of the stability programmes and the draft budgetary plans.	On 11 February 2016, the Eurogroup held a **thematic discussion on the quality of public expenditure in the euro area.** Ministers agreed that (1) it is important to make public spending more efficient to enhance the euro area's potential for economic growth and (2) to further discuss specific areas of public spending (investment, healthcare and ageing-related expenditure). At its meeting of 16 June 2016, the Eurogroup discussed the different policy instruments that can be used to improve **the fiscal sustainability of pension systems** in the euro area. In addition to the traditional parameters such as pension contributions and expenditure, the Eurogroup also discussed active labour market policies and reforms that could reinvigorate economic activity in a sustainable manner. It also looked into the best practices relating to automatic corrections of pension systems in response to increased longevity. The Eurogroup adopted a number of agreed principles that aim to increase the sustainability of the pension systems. It invited the European Commission to consider them in its surveillance processes and to explore the development of appropriate benchmarks on this basis. At the meeting of 11 July 2016, the Eurogroup discussed the euro area fiscal stance based on the national stability programmes submitted by the euro area member states in the context of the European Semester in April this year. The Eurogroup agreed that the aggregate fiscal stance in the euro area is expected to turn from mildly expansionary in 2016 to **broadly neutral in 2017.** The debate will feed into the member states' preparation of their budgetary plans for 2017 later in the year. On 9 September 2016, the Eurogroup exchanged views based on national experiences relating to the government **spending reviews**. Such reviews are conducted to assess the efficiency and effectiveness of public funds across different categories in a country's budget. The discussion aims at helping Member States achieve a more growth-friendly composition of their budgets. Based also on a Commission's note, the Eurogroup adopted a statement outlining the common principles for improving expenditure allocation. At its meeting of 10 October 2016, the Eurogroup exchanged views on **risks that expenditure on health care and long-term care may pose to the sustainability of public finances** in the euro area in the coming decades. The aim of the discussion, based on a Commission's report, was to share national best practices and lessons learned in this policy area, which usually accounts for a significant part of government expenditure. In particular, the Commission's expenditure projections indicate substantial risks and financial challenges in health systems, looking at the horizon 2060.

Financial sector reforms	
EA 2015 CSR 3: Ensure the timely finalisation of the follow up of the Comprehensive Assessment carried out by the European Central Bank, implementation of Directive 2014/59/EU of the European Parliament and of the Council (Bank Recovery and Resolution Directive), completion of the ratification of the Intergovernmental Agreement on the Single Resolution Fund and make the Fund fully operational as from January 2016. **Promote measures to deepen market-based finance**, to improve access to finance for SMEs and to develop alternative sources of finance. **Encourage further reforms of national insolvency frameworks.** **EA 2016 CSR 4:** Facilitate the gradual **reduction of banks' non-performing loans** and **improve insolvency proceedings** for businesses and households. In Member States with large stocks of private debt, promote an orderly deleveraging, including by facilitating the resolution of unviable private debt.	On 14 January 2016, **the Eurogroup exchanged views on national insolvency frameworks and their application, which differ widely across Member States**. Ministers agreed to establish a set of common principles and benchmarks to improve efficiency and effectiveness of these frameworks. At its meeting of 22 April 2016, the Eurogroup continued its exchange of views on national **insolvency frameworks** and their application, which differ widely in the euro area member states. The discussion was held in line with the 2015 and 2016 Council recommendations to the euro area, issued in the context of the European Semester, the EU's annual policy coordination exercise. Well-functioning insolvency frameworks are indispensable for addressing the debt overhang and improving banks' ability to provide credit to the economy. The issue is particularly relevant for the euro area, as its individual economies are prone to spillover effects. Ministers agreed on a set of common principles**,** which could serve as guidance for improving these national frameworks. The principles focus primarily on the speed, predictability and cost-effectiveness of the frameworks. On 7 November 2016, the Eurogroup discussed how to **improve the effectiveness and efficiency of national insolvency frameworks.** This discussion was a follow-up to its April 2016 meeting, where it agreed on a list of principles to be applied. The Eurogroup will revert to this issue next year, awaiting findings from ongoing Commission initiatives to improve data availability in this area as well as a Commission's legislative proposal.
Institutional reforms	
EA 2015 CSR 4: Take forward work on **deepening Economic and Monetary Union**, and contribute to the improvement of the economic surveillance framework in the context of the report on the next steps on better economic governance in the euro area, prepared by the President of the European Commission, Jean-Claude Juncker, in close cooperation with the President of the European Council, Donald Tusk, the President of the European Parliament, Martin Schulz, the President of the European Central Bank, Mario Draghi, and the President of the Eurogroup, Jeroen Dijsselbloem, and its follow-up. **EA 2016 CSR 5:** Work towards **completing EMU** in an open and transparent manner, while fully supporting the internal market, and further exploring the legal, economic and political aspects of the more long-term measures contained in the Five Presidents' Report.	On 9 November 2015, **the Eurogroup held an initial exchange of views on the COM communication of** 21 October 2015 and specifically on external representation of the euro area. At the Eurogroup meeting of 9 September 2016, the President of the EWG informed Ministers on **the state of play of technical work on simplifying and increasing the predictability of SGP within the existing rules**. Discussions focused on using the expenditure benchmark in both the preventive and corrective arm and specific proposals for consideration by Ministers could be expected towards the end of the year. More technical work is needed at the preparatory committee levels to address the volatility coming from output gap estimates.

Annex 4: Overview and assessment of the Council recommendations on economic policy of the euro area

Council 2016 recommendations	COM assessment of implementation of 2016 recommendations (based on the COM Staff Working Document)	COM draft 2017 recommendations
1. Pursue policies that support the recovery, foster convergence, facilitate the correction of macroeconomic imbalances and improve adjustment capacity. To this end, Member States, particularly those with large stocks of private and foreign debt, are to implement reforms that enhance productivity, foster job creation, raise competitiveness and improve the business environment. Member States with large current account surpluses are to implement as a priority measures, including structural reforms, that help strengthen their domestic demand and growth potential.	The euro area has made **limited progress** in addressing **CSR 1**: • The correction of existing macroeconomic imbalances is taking place, but the process is uneven and slow. • Significant progress has been achieved among net debtor countries in correcting their external imbalances, although stocks of net foreign liabilities remain high. • In contrast, countries with large surpluses and positive stocks of net liabilities have not corrected their surpluses. • There has been some progress in structural reform implementation.	**1. Pursue policies that support growth in the short and the long term, and improve adjustment capacity, rebalancing and convergence.** Prioritise reforms that increase productivity, improve the institutional and business environment, remove bottlenecks to investment, and support job creation. Member States with current account deficits or high external debt should raise productivity while containing unit labour costs. Member States with large current account surpluses should accelerate the implementation of measures that help to strengthen their domestic demand, in particular investment.
2. Implement reforms that combine: (i) **flexible and reliable labour contracts** that promote smooth labour market transitions and avoid a two-tier labour market; (ii) comprehensive **lifelong learning** strategies; (iii) effective policies to help the **unemployed re-enter the labour market;** (iv) **adequate and sustainable social protection systems** that contribute effectively and efficiently throughout the life cycle both to social inclusion and labour market integration; and (v) **open and competitive product and services markets. Reduce the tax wedge on labour**, particularly on low-earners, in a budgetary-neutral way to foster job creation.	The euro area has made **some progress** in addressing **CSR2**: • Progress has been made in implementing flexible and reliable labour contracts that promote labour market transitions and avoid a two-tier labour market, particularly in the euro area Member States with both large cumulated imbalances and stringent job protection legislation before the crisis. • Some progress has been made in implementing comprehensive lifelong learning strategies. • Some progress has been made in implementing effective policies to help unemployed re-enter the labour market • Some progress has been made in implementing modern social protection systems that support those in need and provide incentives for labour market integration.	**3. Implement reforms that promote job creation, social fairness and convergence**, underpinned by an effective social dialogue. They should combine: (i) **reliable labour contracts** which provide flexibility and security for employees and employers; (ii) **quality and efficient education and training systems** and comprehensive lifelong learning strategies targeted at labour market needs; (iii) **effective active labour market policies** to support labour market participation; (iv) **modern and adequate social protection systems** that support those in need and provide incentives for labour market integration. Shift taxes away from labour, particularly for low-income earners and in Member States where cost competitiveness lags behind the euro area average, and make it budgetarily neutral in countries without the fiscal room for manoeuvre.

	• Limited progress has been made in reducing the tax wedge on labour.	
3. Pursue fiscal policies in full respect of the SGP. For 2016, the objective of a broadly neutral aggregate fiscal stance in the euro area appears appropriate in order to reflect a balance between long-term fiscal sustainability and short-term macroeconomic stabilisation. Looking towards 2017, reduce public debt to restore fiscal buffers and avoid pro-cyclicality. Differentiate the fiscal effort by individual Member States in line with their respective positions with regard to the requirements under the SGP while considering stabilisation needs, as well as taking into account possible spillovers across euro area Member States. To this end, review the euro area fiscal stance in the context of the stability programmes and the draft budgetary plans.	The euro area has made **some progress** in addressing **CSR 3**: • Most Member States broadly complied with the Stability and Growth Pact in 2016. Some benefitted from the flexibility arrangement to promote structural reforms and investment. Two Member States required new deadlines to correct their excessive deficits. • For 2016, a slightly expansionary fiscal stance is expected, which is deemed appropriate for stabilisation purposes in a still tepid recovery, despite fiscal sustainability needs. • For 2017, public debt is expected to fall moderately. • Some progress has been made in the coordination of fiscal policies, in particular in terms of delivery of an appropriate aggregate fiscal stance. However, the distribution of the aggregate fiscal stance remains sub-optimal across Member States. • The euro area fiscal stance was discussed among Member States in the EWG and the Eurogroup in summer 2016 based on the Stability Programmes	**2. Deliver an overall positive fiscal stance contributing to a balanced policy mix, to support reforms and to strengthen the recovery through a fiscal expansion of up to 0.5% of GDP in 2017.** Combine national efforts to secure long-term fiscal sustainability in respect of the Stability and Growth Pact with short-term macroeconomic stabilisation for the euro area, using all the room for manoeuvre available under the Stability and Growth Pact. Differentiate the fiscal effort by individual Member States by better taking into account their respective position with regard to the requirements under the Stability and Growth Pact, the situation of the euro area aggregate and spillovers across euro area countries: (i) for Member States which are over-achieving their fiscal objectives, use their fiscal space to support domestic demand and quality investments, including cross-border ones, as part of the Investment Plan for Europe; (ii) for Member States that need further fiscal adjustments under the preventive arm of the Pact, make sure to be broadly compliant with the requirements of the Stability and Growth Pact; (iii) for Member States under the corrective arm, ensure a timely correction of their excessive deficits, including by providing fiscal buffers against unforeseen circumstances. Improve the composition of public finances by creating more room for tangible and intangible investment and ensure the effective functioning of national fiscal frameworks.
4. Facilitate the gradual reduction of banks' non-performing loans and improve insolvency proceedings for businesses and households. In Member States with large stocks of private debt, promote an orderly deleveraging, including by facilitating the resolution of unviable private debt.	The euro area has made **some progress** in addressing **CSR 4**: • The supervisory, the macro-prudential, and resolution frameworks have become fully operational. The Single Resolution Fund have all the resolution powers in place. • Following the evaluation of the implementation by Member States of the Insolvency Recommendation of 2014, the Commission has engaged in preparing a legislative initiative on pre-insolvency and recovery	**4. Agree on a European deposit insurance scheme on the basis of the Commission's proposal of November 2015 and start work on the common backstop for the Single Resolution Fund** to make it operational before the end of the Fund's transitional period. Devise and implement an effective euro-area wide strategy to address risks to the viability of the banking sector, including as regards the high level of non-performing loans, inefficient business models and overcapacity. In Member States with

	proceedings. The initiative aims at providing tools that would allow viable businesses in distress to be rescued and honest but bankrupt individuals to be given a second chance.	large stocks of private debt, promote an orderly deleveraging.
5. Work towards completing EMU in an open and transparent manner, while fully supporting the internal market, and further exploring the legal, economic and political aspects of the more long-term measures contained in the Five Presidents' Report.	The euro area has made **some progress** in addressing **CSR 5**: • The Council adopted the recommendation to set up National Productivity Boards on 20 September 2016. • The Members of the European Fiscal Board (EFB) have been appointed and the EFB became operational in October 2016. • Regarding external representation, in June 2016, the Council agreed on some minimal improvements in coordination of IMF issues and agreed to continue discussions on further strengthening the coordination. • An Ad-hoc Working Group (AHWG) in the Council was set up, which worked on a roadmap to complete the Banking Union. The roadmap was adopted by the Council in June 2016.	**5. Accelerate initiatives to complete the EMU, in full respect of the EU's internal market and in an open and transparent manner.** Implement the remaining actions under stage 1 of the Five Presidents' Report on completing Europe's EMU.

Annex 5: Fiscal sustainability assessment by Member State

	BE	BG	CZ	DK	DE	EE	IE	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	UK
Overall short-term risk[1]	low	low	low	low	low	low	low	low	low	low	low	high	low	low	low	low	low	low	low	low	low	low	low	low	low	low	low
Overall medium-term risk[2]	high	low	low	low	low	low	high	high	high	high	high	high	low	medium	low	medium	low	medium	medium	high	high	medium	high	low	high	low	high
Debt sustainability risk[3]	high	low	low	low	low	low	high	high	high	high	high	high	low	low	low	medium	low	low	medium	high	high	medium	high	low	high	low	high
Overall long-term risk[4]	medium	medium	medium	low	low	low	low	low	low	low	low	low	low	medium	medium	low	medium	medium	medium	medium	low	medium	high	medium	medium	medium	medium

Source: European Commission, Report on Health Care and Long-Term Care Systems and Fiscal Sustainability, October 2016 (Greece is not included, since it is subject to a macroeconomic adjustment programme).

Notes:

1. Based on the S0 indicator used by the European Commission, this indicator highlights risks of fiscal stress in the upcoming year. It is based on 28 individual variables, grouped into two sub-indicators (Fiscal index and Financial-competitiveness index).

2. Based on the joint measure of the debt sustainability analysis (DSA) and the S1 indicator. The DSA makes use of debt projections over 10-years, with both baseline (no-fiscal policy change) and alternative scenarios (e.g. to take into account less favourable ageing costs). The S1 indicator shows the additional cumulated adjustment in the structural primary balance over 5 years that is needed to reach the target of a 60% debt-to-GDP ratio by 2030. Like for the DSA, the S1 can be measured against alternative scenarios. Countries are assessed against a lower (0 pps.) and upper (2.5 pps.) threshold of required adjustment, with medium risk for countries ranked between. A country is considered to have a high medium-term debt sustainability risk if either its DSA or its S1, or both, show a high medium-term risk.

3. Based on DSA (see previous footnote).

4. Based on the S2 indicator, it shows the upfront adjustment to the current structural primary balance required to stabilize the debt-to-GDP ratio over the infinite horizon (irrespective of any debt-to-GDP ratio targets). Two thresholds of risks are set in terms of adjustment percentage points: an upper threshold of 6pps. and a lower threshold of 2 pps. Countries above 6 pps. are considered to be at high long-term risk, countries between 6 and 2 pps. at medium risk, countries below 2 pps. at low risk. It can be measured against alternative scenarios.

Annex 6: Euro area MIP scoreboard

	External imbalances and competitiveness					Internal imbalances						Employment Indicators		
Year 2015	**Current Account Balance** % of GDP 3 year average	**Net International Investment Position** % of GDP	**Real Effective Exchange Rate with HICP deflator** 3 year % change	**Export Market Shares** 5 year % change	**Nominal ULC (2010=100)** 3 year % change	**House Prices index deflated** 1 year % change	**Private Sector Credit Flow** % of GDP	**Private Sector Debt,** consolidated % of GDP	**General Government Gross Debt** % of GDP	**Unemployment rate** 3 year average	**Total Financial Sector Liabilities, non-consolidated** 1 year % change	**Activity rate** % of total pop. aged 15-64 3 year change	**Long term unemployment rate** % of active pop. aged 15-74 3 year change	**Youth unemployment rate** % of active pop. aged 15-24 3 year change
Thresholds	**-4/+6%**	**-35%**	**±5% (EA)**	**-6%**	**+9% (EA)**	**+6%**	**14%**	**133%**	**60%**	**10%**	**16.5%**	**-0.2%**	**0.5%**	**2%**
BE	-0.2	61.3	-1.2	-11.3	1.5	1.3	4.5	166.3	105.8	8.5	-1.0	0.7	1.0	2.3
DE	7.5	48.7	-1.4	-2.8	5.7	4.1	3.0	98.9	71.2	4.9	2.8	0.4	-0.4	-0.8
EE	0.9	-40.9	6.4	8.5	14.4	6.8	3.3	116.6	10.1	7.4	8.1	1.9	-3.1	-7.8
IE	4.7	-208.0	-5.9	38.3	-18.1	8.3	-6.7	303.4	78.6	11.3	9.5	0.8	-3.7	-9.5
EL	-1.2	-134.6	-5.5	-20.6	-11.1	-3.5	-3.1	126.4	177.4	26.3	15.7	0.3	3.7	-5.5
ES	1.3	-89.9	-2.9	-3.5	-0.7	3.8	-2.7	154.0	99.8	24.2	-2.1	0.0	0.4	-4.6
FR	-0.7	-16.4	-2.7	-5.4	2.5	-1.3	4.4	144.3	96.2	10.3	1.8	n.a.	0.6	0.3
IT	1.5	-23.6	-2.2	-8.9	1.5	-2.6	-1.7	117.0	132.3	12.2	1.7	0.5	1.3	5.0
CY	-4.1	-130.3	-6.2	-16.8	-10.5	2.9	4.4	353.7	107.5	15.7	2.8	0.4	3.2	5.1
LV	-1.8	-62.5	3.1	10.5	16.0	-2.7	0.7	88.8	36.3	10.9	12.2	1.3	-3.3	-12.2
LT	0.9	-44.7	4.0	15.5	11.6	4.6	2.2	55.0	42.7	10.5	6.7	2.3	-2.7	-10.4
LU	5.3	35.8	-0.5	22.9	0.6	6.1	24.2	343.1	22.1	6.1	15.5	1.5b	0.3	-1.4
MT	4.3	48.5	-0.2	-8.8	3.9	2.8b	5.4	139.1	64.0	5.9	1.3	4.5	-0.7	-2.3
NL	9.1	63.9	-0.6	-8.3	0.2	3.6	-1.6	228.8	65.1	7.2	3.2	0.6	1.1	-0.4
AT	2.1	2.9	1.8	-9.6	6.1	3.5	2.1	126.4	85.5	5.6	0.6	0.4	0.5	1.2
PT	0.7	-109.3	-2.8	2.8	0.0	2.3	-2.3	181.5	129.0	14.4	-1.6	0.0	-0.5	-6.0
SI	5.4	-38.7	0.6	-3.6	-0.6	1.5	-5.1	87.3	83.1	9.6	-3.4	1.4	0.4	-4.3
SK	1.1	-61.0	-0.7	6.7	2.2	5.5	8.2	81.4	52.5	13.0	4.5	1.5	-1.8	-7.5
FI	-1.0	0.6	2.3	-20.5	3.6	-0.4	9.5	155.7	63.6	8.8	1.5	0.6	0.7	3.4

Source: Eurostat. Grey boxes indicate values outside the threshold. Data as of 23 November 2016 (they may differ from the data published in the 2017 AMR).