

BRIEFING

Economic Dialogue with the President of the Eurogroup

Committee briefing for the attention of ECON on 20 February 2014

Eurogroup President Jeroen Dijsselbloem has been invited for an [Economic Dialogue](#) in line with the new economic governance framework, in particular Article 2ab of Regulation 1466/97. He became President of the Eurogroup on 5 November 2012 and at the same time elected Chairman of the ESM Board of Governors. Previous exchanges of views with the President took place in ECON on March 21 (regular), 7 May (ad hoc on Cyprus programme), and 3 September 2013 (regular). List of all Economic Dialogues is available on [ECON homepage](#).

1. Eurogroup [work programme](#) spring 2014

- Implementation of the 2013 euro area recommendations and the CSRs under the European Semester, as well as regular monitoring of the overall budgetary situation in the euro area as a whole.
- Discussion on 2014 SCPs and euro area specific recommendations, including implications of the COM spring forecast for EDPs and possibly EIPs for euro area countries in June 2014.
- Reviewing adjustment programmes for Greece, Portugal and Cyprus and post-programme surveillance for Ireland and Spain, if appropriate.
- Implementation of the Single Supervisory Mechanism, the design of a Single Resolution Mechanism, possible backstop arrangements and finalisation of the ESM's direct recapitalisation instrument.
- Discussions on euro area enlargement.
- Preparations of Euro Summit meetings (see [Rules of Procedure](#)).

ESM operational framework for direct recapitalisation is [currently](#) under discussion in the Eurogroup. It is closely linked to the launch of the SSM in November 2014 and an agreement on the SRM. For more information on the functioning of the ESM as well as accountability and oversight see the [updated note on the ESM](#).

COM is expected to publish its **Winter Forecast** on 25 February 2014, its **In-Depth Reviews under the MIP** as well as the **EU2020 strategy assessment** in early February, and the draft 2014 Country Specific Recommendations in late May 2014.

2. Implementation of [2013 recommendations](#) for the euro area as whole

2.1 Reforms for growth and jobs

Recommendation 1: Take responsibility for the aggregate policy stance in the euro area in order to ensure the good functioning of the euro area to increase growth and employment, and to take forward the work on deepening economic and monetary union. Allow the Eurogroup to play a central role in the strengthened surveillance framework applicable to euro area Member States to coordinate and monitor reforms at national level and at the euro area level that are necessary for a stable and robust euro area and to ensure policy coherence, and in the preparation of the Euro Summits.

Recommendation 6: In line with the **AGS 2013** and by taking collective and significant measures, tackle the social consequences of the crisis and the rising unemployment levels. The situation of **unemployed young people** is particularly worrying and bold action is recommended along the lines of the **Compact for Growth and jobs** and the **EU Youth Guarantee**. Further reforms to facilitate access to employment, prevent early withdrawals from the labour market, reduce the cost of labour, combat labour market segmentation and support innovation are recommended.

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PE 497.765

The latest data for the euro area economy point to a **mild recovery** as GDP expanded by 0.3% q-o-q in the **last quarter of 2013** (after 0.1% in the previous quarter). The picture is still uneven across Member States: Italy posted a mild GDP growth of 0.1% q-o-q while activity accelerated in Germany (+0.4%), France (+0.3%), Portugal (+0.5%) and Spain (+0.3%) based on preliminary estimates by Eurostat. In Greece, recession continued as GDP contracted by 2.6% y-o-y (compared to -3.0% in the third quarter of 2013).

Last January, the IMF revised upwards its GDP growth forecast for 2014 and 2015 from 0.9% and 1.3% to 1.0% and 1.4% respectively, albeit unevenly across the euro area. However, **three main factors** are likely to hamper this recovery. First, fiscal consolidation continues to operate albeit at a slower pace. Second, the private-sector deleveraging is still underway in several economies, thereby hampering domestic demand. Third, euro area financial markets remain fragmented, despite some improvements.

The OECD published on 17 November a report focusing on **economic challenges for the euro area**. It recommends euro area Member States to implement structural reforms in several policy areas including product market regulation, labour market regulations, taxation, human capital and financial regulations.

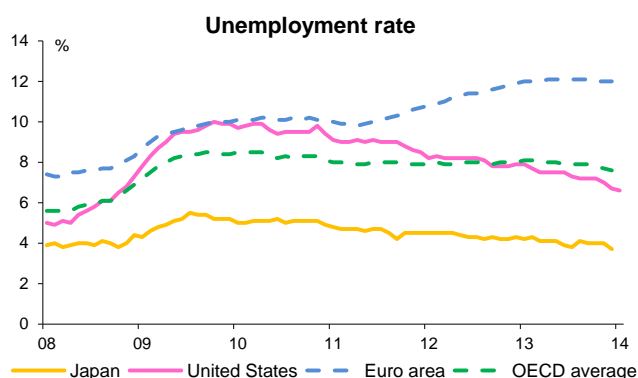
State of Play on a Genuine EMU

December 2013 European Council invited the President of the European Council, in close cooperation with the President of the COM to carry work forward on a system of mutually agreed contractual arrangements and associated solidarity mechanisms, and to report to the October 2014 European Council with a view to reaching an overall agreement based on the below elements. It would be embedded in the European Semester, open to non-euro area Member States and fully compatible with the Single Market.

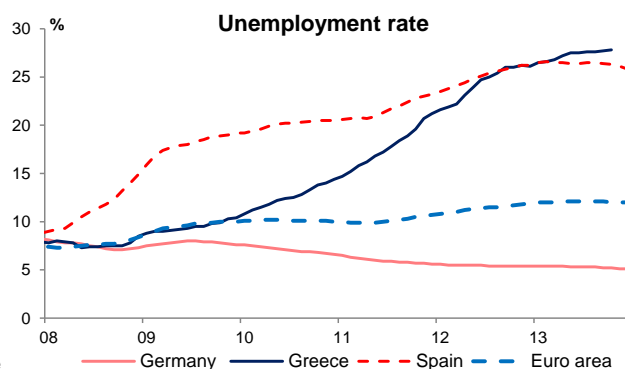
Ahead of the December 2013 European Council, **the EP adopted two resolutions** in order to provide input for the debate; one on the 'Preparation of the European Council Meeting (19-20 December)' and another on the 'Constitutional problems of a multitier governance in the European Union'.

Inflation dropped to 0.7% y-o-y in January 2014 (based on the Eurostat flash estimate) from 2.0% y-o-y one year earlier. Last December, the ECB Governing Council revised downwards its inflation projections to 1.1% and 1.3% in 2014 and 2015, respectively. While a "prolonged period of low inflation" is expected, the results of the latest ECB survey of professional forecaster for the first quarter of 2014 are in line with well-anchored inflation expectations over the medium term, i.e. the average point forecast was still at 1.9% y-o-y.

Charts on unemployment:



Source: OECD



Source: Eurostat

Developments in [youth unemployment rates](#) mask important cross-country disparities. While the youth unemployment rate has seen a limited increase in Austria and Malta and has even declined in Germany, it has increased particularly sharply in countries under market stress, reaching between 50% and 60% in Greece and Spain, close to 40% in Italy, Portugal and Cyprus, and close to 30% in Ireland in 2013. In Ireland and Cyprus, the increase followed relatively low rates of youth unemployment before the crisis. In Spain, Greece, Portugal and Italy, high youth unemployment rates relative to the euro area average are not a new phenomenon, but were recorded already before the crisis. At the same time, relatively high youth unemployment rates prior to the crisis have also been a feature of some non-stressed countries, such as France and Belgium.

2.2 Surveillance of fiscal policies

Recommendation 2: ensure that the Eurogroup monitors and coordinates fiscal policies of the euro area Member States and the aggregate fiscal stance for the euro area as a whole to ensure a growth friendly and differentiated fiscal policy. To this end, the Eurogroup should discuss the Commission opinions of the draft budgetary plans of each of the euro area Member States, and the budgetary situation and prospects for the euro area as a whole on the basis of the overall assessment by the Commission of the draft budgetary plans and their interaction. The coordination should contribute to ensuring that the pace of fiscal consolidation is differentiated according to the fiscal and economic situation of the euro area Member States with the budgetary adjustment defined in structural terms in line with the Stability and Growth Pact, allowing the automatic stabilisers to function along the adjustment path and that, in view of reinforcing the credibility of fiscal policy over the medium term, fiscal consolidation is supported by an overall efficient and growth- friendly mix of expenditure and revenue and by appropriate structural reforms which enhance the economic growth potential.

In March and June 2014, Council may decide on further steps relating the implementation of **EDP recommendations**, in particular, based on the COM winter and spring forecasts to be published in February and May. According to the [COM autumn 2013 forecast](#), the general government deficits in the euro area amounted to 3.1% in 2013 (after 3.7% in 2012) and the gross public debt to 95.5% (after 92.6% in 2012). An overview of the state of play on the **implementation of the SGP** is available on the [ECON homepage](#).

On 15 November 2013, COM presented its [opinions on Draft Budgetary Plans](#) (DBPs) and [Economic Partnership Programmes](#) (EPPs) of euro area Member States. The Eurogroup discussed the COM opinions on the DBPs on [22 November 2013](#) and found the fiscal plans for 2014 appropriate, but compliance with the rules of the SGP was nevertheless assessed to be at risk in a number of Member States. The Council opinions on the EPPs, as adopted by [ECOFIN](#) on 10 December 2013, include assessments of compliance with Council recommendations under the EDP and potential breaches of the debt and deficit criteria under the SGP. The assessments were based on the [COM autumn 2013 forecast](#) published on 5 November 2013. **Importantly, no DBP was found to be in serious non-compliance with the obligations of the SGP**, so that no DBP needed to be revised and resubmitted. However, in several cases, COM/Council have found reasons for substantial criticism and called on the Member States concerned to take the opinion into account in the finalisation of the 2014 budgets.

[Fiscal Compact](#) (Treaty on Stability, Cooperation and Governance, TSCG) entered into force in beginning of 2013 in all 25 signatory countries, out of which 18 belong to the euro area. The COM intend to publish in the second half of 2014 a report on the implementation of the TSCG as requested by its Article 8.

2.3 Progress on Banking Union and SMEs financing

Recommendation 4: Building on the recapitalisation and the restructuring of the past years, promote further balance-sheet repair among banks as a means to reverse fragmentation in the single market and improve the flow of credit to the real economy, particularly SMEs. To this end: (a) ensure that the balance sheet assessments and stress tests to be conducted by the Single Supervisory Mechanism (SSM) in cooperation with the European Banking Authority (EBA) are concluded in accordance with the agreed timeline; (b) ensure a level playing field in applying burden-sharing requirements in the recapitalisation of banks; (c) ensure the availability of credible fiscal backstops in the context of balance sheet assessments and stress tests; (d) remove supervisory incentives for banks to match asset and liabilities

within national borders; and (e) accelerate the necessary steps to establish the Banking Union, as outlined by the European Council.

Recommendation 3: Assess, in the framework of the Eurogroup, the reasons behind the differences in lending rates especially to SMEs across the euro area Member States; explore the consequences of the fragmentation of the financial markets in the euro area, and contribute to ways to overcome it.

Negotiations between the [EP](#) and the Council on the **Single Resolution Mechanism (SRM)** are currently under way. They focus amongst others on which institution shall be the ultimate resolution authority, on composition and the voting modalities of the Single Resolution Board, on the intergovernmental vs. community character of the Single Resolution Fund as well as on the Board's appointments. ECON voted a common position on 17 December 2013, endorsed by the EP Plenary on **6 February 2014**, while the Council agreed on a general approach on 18 December 2013. In order to table for EP plenary in April, negotiations would need to conclude in the second half of March 2014.

On [3 February 2014](#) the ECB published a **note on comprehensive assessment** with overview of the recently agreed key building blocks of the stress test, an outline of the progress made to date on the Asset Quality Review (AQR), more details of the AQR methodology and a summary of the approach with respect to quality assurance. The process of comprehensive assessment (risk assessment + AQR + stress test) concerns all of the 128 banks deemed significant under the SSM over which the ECB will have direct oversight as of November 2014. These banks cover approximately 85% of euro area bank assets. For the stress test component of the comprehensive assessment, the ECB announced to cooperate closely with the European Banking Authority (EBA), and to apply the methodology and parameters agreed and announced by EBA on [31 January 2014](#). The latter will conduct an EU-wide stress test on a sample of 124 EU banks which cover at least 50% of each national banking sector, and will be run at the highest level of consolidation. The **question remains**, how many of the 128 banks under the ECB stress test and of 124 banks under the EBA stress test overlap.

On [4 February 2014](#), the SSM Chair, Danièle Nouy, presented in ECON the **first ECB Quarterly Report** on progress in implementing the SSM. According to the Report, the SSM supervisory model has largely been developed, with the key concept of Joint Supervisory Teams (JSTs) to directly supervise the approximately 130 banks considered "significant" in accordance with the SSM Regulation. The composition of the JSTs was defined in the first meeting of the SSM Supervisory Board on 30 January 2014.

Interest rate spreads on **new bank loans to SMEs** eased substantially by around 80 bp both in Spain and Italy between January and December 2013. The January 2014 ECB [Bank Lending Survey](#) also indicated further "*stabilisation in credit conditions for firms and households, in the context of persistently weak loan demand*".

2.4 Surveillance of macroeconomic imbalances

Recommendation 5: Coordinate *ex ante* the major economic reform plans of the euro area Member States. Monitor the implementation of **structural reforms**, in particular in the labour and product markets and assess their impact on the euro area, taking into account the Council recommendations to individual euro area Member States. Promote further adjustment in the euro area, ensuring a correction of external and internal imbalances, inter alia by following thoroughly the reforms that address distortions to saving and investment behaviour in Member States with both current account deficits and surpluses. Take the necessary steps for an effective implementation of the **Macroeconomic Imbalances Procedure**, in particular by assessing progress in reform commitments in Member States experiencing excessive imbalances and in reform implementation in Member States with imbalances requiring decisive action to limit **negative spillovers** to the rest of the euro area.

In the [Annual Macroeconomic Report](#) published in November 2013, ten euro area Member States were considered at risk of macroeconomic imbalances, while four were at that time under financial assistance programme. This means that only four countries (EE, LV, AT and SK) have not been submitted to the in-depth-review by the COM (the outcomes are expected at the beginning of March

2014). For Spain and Slovenia, the COM will assess whether the excessive imbalances (related essentially to the financial sector) persist; for France and Italy, the COM will assess the persistence of imbalances requiring decisive policy actions. Furthermore, the COM will analyse in depth the risks related to the external position of Germany and Luxembourg, which are considered at risk of macroeconomic imbalances for the first time.

In December 2013, the COM presented a [quantitative model-based assessment](#) of the potential impact of structural reforms in selected core and vulnerable periphery euro area Member States. Using structural indicators of labour and product markets, the study shows that reforms would cause large potential gains in output and employment, raising GDP by 1.5 % to 6 % after five years. Under simultaneous reforms, higher demand effects help to support growth in trading partners, and GDP spillovers are positive, with growth effects in Member States mutually bolstering each other.

3. State-of-Play of the EU financial assistance programmes

Ireland: the [final review mission](#) in the fourth quarter of 2013 concluded that programme implementation remains robust overall, although challenges remain. With public debt level at 124% of GDP in 2013, Ireland needs to continue with fiscal consolidation, reduce the private sector debt overhang, tackle high unemployment and improve bank profitability to revive lending. Upon the final review, the [COM](#) and the [IMF](#) adopted [decisions authorising the final disbursements](#) of respectively €0.8bn (EFSM) and about €0.65bn (IMF). This brings the total amount authorised for disbursement under the programme to 100% of the overall international assistance of €67.5bn.

Post-Programme Surveillance (PPS) in Ireland

Aside from regular economic governance requirements common to all euro-area MS, Ireland will be subject to the additional PPS mechanism, adopted under Regulation 472/2013. PPS will apply until at least **75% of the financial assistance** received under the programme has been repaid so as to ensure that Ireland maintains its capacity to service its debt to the EFSM, EFSF and bilateral lenders. Under PPS, the COM will be requested, in liaison with the ECB, to:

- ◆ Conduct regular review missions in the MS to assess its economic, fiscal and financial situation.
- ◆ Prepare semi-annual assessments of Ireland's economic, fiscal and financial situation and determine whether corrective measures are needed.

The assessment is to be communicated to the **competent committee of the EP**, to the EFC and to the Irish parliament.

Acting upon proposal from the COM, the Council could recommend Ireland to adopt corrective measures. In parallel and in close coordination with the COM, the EFSF will put in place procedures to administer its loans until the last payment is due (in 2042), including an early warning system.

Spain: the [financial assistance programme](#) for Spain ended on 23 January 2014. Spain decided, with the full [support of Eurogroup](#), not to request any follow-up assistance from the ESM. Since the programme started in November 2012, the ESM has disbursed a total of €41.3bn to the Spanish government for the recapitalisation of the country's banking sector. In [January 2014](#), the COM published its fifth review stating that the stabilisation of Spanish financial markets continues, with the drop in sovereign bond yields reaching new lows and the rise in share prices reflecting the positive sentiment surrounding signs of economic recovery. The financing conditions for large parts of the economy, including banks, have improved, even if financing conditions for SMEs remain difficult. The high budget deficit needs to be brought down so as to halt and reverse the on-going rise in general government debt. On the structural reforms side, focus should be on the reforms of public administration, the review of the tax system and strengthening of labour market policies. With the Programme coming to an end, the COM, in liaison with the ECB, where indicated, will **continue monitoring** Spain's financial sector and the broader economy. This monitoring will be performed under all relevant EU surveillance processes.

Cyprus: the Troika visited Cyprus for the third review in [January 2014](#). The Programme remains on track with the macro-fiscal outturn better than expected, but challenges remain. In the financial sector, the high level of non-performing loans needs to be reduced and payment flows in the economy normalised. The implementation of structural reforms needs to be accelerated, with key

priority to reform the social welfare system. Conclusions of the third review will be considered by the Eurogroup, the ESM Board of Directors, and the IMF within next month. Its approval will enable the disbursement of €150 million by the ESM, and about €86 million by the IMF.

Greece: The current review is on-going since September 2013. The length and interruptions of this review are explained by the Troika inter alia by "[*unusually large number of complex issues that need to be resolved in the course of this review \(...\)*](#)". Before the current review, [on 5 September 2013](#), the President of the Eurogroup addressed the situation of Greece in front of ECON. As regards the progress made, he highlighted (on the basis of the third [3rd Troika review](#) concluded on 8 July 2013) the following two aspects: (1) Real progress has been made by the Greek authorities to reduce fiscal and external imbalances; (2) Further reform progress is needed regarding the Greek public sector (including the lagging privatisation process) and tax administration. Furthermore, he assumed that that additional support will be needed beyond the 2nd programme. Measures that could be considered include a further reduction to the interest rates on the Greek loan facility and a lower co-financing requirement for structural funds. Greece has received from the EFSF €133.6bn out of the total committed amount of €144.6bn. The next disbursement is foreseen after completion of the current review.

Portugal: on [16 December 2013](#) Troika staff teams concluded the tenth review mission (on [12 February 2014](#) the IMF executive board completed the review on the IMF side). Growth is assessed to be broadly in line with projections, while unemployment has fallen more than expected. External rebalancing has continued, although imports have picked up, reflecting stronger-than-expected domestic demand. With tax collections performing well the 2013 deficit target of 5.5 % of GDP is achievable. The banking sector is stable, but low profitability signals that challenges remain. Market sentiment towards Portugal's sovereign debt has gradually improved, as also evidenced by robust demand for a debt exchange at the end of 2013. The government is implementing measures to safeguard the 2014 fiscal deficit target after a pension cut was rejected by the Constitutional Court.

More facts on the financing of the financial assistance programmes can be found [in the EGOV financial assistance table](#).

Two **briefing papers** (commissioned by ECON) by the *CEPS* and *Bruegel* of February 2014 analysed the euro area macroeconomic adjustment programmes. Key messages of both briefing papers are in **Annex 3**.

Additionally, ECON is preparing an **own initiative report** evaluating the structure, the role and operations of the Troika actions in euro area programme countries. In the framework of the drafting of the report, the ECON chair and the co-rapporteurs have sent a questionnaire to institutions involved in the Troika as well as to the MS (the Finance Minister, the Governor of the Central Bank and the Head of State); the questionnaire and the replies are available [on the ECON homepage](#).

Finally, EMPL has prepared an **own enquiry report** on the employment and social aspects in the concerned programme countries (available [on the EMPL homepage](#), with supporting studies under [EMPL studies homepage](#)).

Annexes:

1. Table on euro area economic development (average figures)
2. Scoreboard for the identification of possible macro-economic imbalances in euro area Member States
3. Key messages of briefing papers on the implementation of the macroeconomic adjustment programmes

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Annex 1: Key economic indicators for the euro area

	2011	2012	2013	2013(Q1)	2013(Q2)	2013(Q3)	2013(Q4)
Output							
Economic sentiment (indicator)	101.8	90.8	93.8	90.5	90.2	95.3	99.1
Industrial confidence (balance)	0.3	-11.7	-9.3	-12.2	-12.7	-8.3	-4.1
GDP (% ch. on prev. year and period*)	1.6	-0.7	-0.4	-0.2*	0.3*	0.1*	0.3*
Labour productivity (% ch. on prev. year and period*)	1.1	0.0	0.4	0.2*	0.4*	0.1*	--
Private consumption							
Consumer confidence (balance)	-14.5	-22.1	-18.6	-23.5	-20.8	-15.9	-14.4
Private consumption (% ch. on prev. year and period*)	-0.4	-1.4	-0.7	-0.1*	0.1*	0.1*	--
Investment							
Gross fixed capital formation (% ch. on prev. year and period*)	1.7	-4.1	-3.4	-2.0*	0.3*	0.5*	--
Labour market							
Employment (% ch. on prev. year and period*)	0.6	-0.7	-0.9	-0.4*	0.0*	0.0*	--
Unemployment rate (% of labour force)	10.2	11.4	12.1	12.0	12.1	12.1	12.0
International transactions							
World trade (% ch. on prev. year and period)	5.9	1.9	--	0.9*	0.3*	1.1*	--
Current-account balance (billion €)	12.8	128.6	200.2	50.4	61.5	42.7	45.7
Prices							
Core HICP	1.7	1.8	1.3	1.5	1.3	1.3	1.0
Headline inflation (HICP, % ch. on prev. year)	2.7	2.4	1.4	1.9	1.4	1.3	0.8
Monetary and financial indicators							
Nominal interest rates (3 month)	1.39	0.57	0.22	0.21	0.21	0.22	0.24
Nominal effective exchange rate (% ch. on prev. year and period*)	-0.2	-5.4	3.9	2.9*	0.1*	1.0*	1.2*

Source: [DG ECFIN](#), updated 13.02.2014

Definitions

- Trade balance: extra EA exports - extra EA imports. Data seasonally adjusted.
- Current account balance: Transactions in goods and services + income and current transfers between residents and non- residents of the EA. Data seasonally and working-day adjusted.
- Headline inflation: HICP (index 2005=100)
- Nominal interest rates: ECB 3-month EURIBOR interbank rate (360 days).
- Nominal effective exchange rate: ECB Nominal effective exch. rate, EA-17 vis-à-vis the EER-20 group of trading partners against Euro.

ANNEX 2: Scoreboard for the identification of possible macro-economic imbalances in euro area Member States

Values for year 2012	External imbalances and competitiveness					Internal imbalances					
	3 year average of Current Account Balance as % of GDP	Net Interna- tional Invest- ment Position as % of GDP	% Change (3 years) of Real Effective Exchange Rate with HICP deflators	% Change (5 years) in Export Market Shares	% Change (3 years) in Nominal ULC	% y-o-y change in deflated House Prices	Private Sector Credit Flow as % of GDP	Private Sector Debt as % of GDP	General Government Debt as % of GDP	Unemploy- ment rate - 3 year average	% y-o-y Change in Total Financial Sector Liabilities, non- consolidated
Euro Area Thresholds	-4/+6%	-35%	±5%	-6%	+9%	+6%	14%	133%	60%	10%	16.5%
BE	-0.4	47.6	-4.3	-14.9	6.3	-0.2	-1.6	146.4	99.8	7.7	-3.9
DE	6.5	41.5	-8.9	-13.2	3.0	1.8	1.5	106.7	81	6.2	4.4
EE	0.9	-54	-3.4	6.5	-2.8	3.5	4.7	129.4	9.8	13.2	12.9
IE	2.3	-112	-12.2	-16.3	-10.4	-11.7	-1.6	306.4	117.4	14.4	-0.7
EL	-7.5	-108.8	-4.5	-26.7	-8.1	-12.4	-6.8	129.1	156.9	18.2	-3.4
ES	-3.1	-91.4	-5.2	-14.6	-5.6	-16.9	-10.4	194.4	86	22.3	3.5
FR	-1.8	-21.1	-7.8	-14.0	4.1	-2.3	3.5	140.6	90	9.9	-0.1
IT	-2.3	-26.4	-6.2	-23.8	3.1	-5.4	-1.0	126.4	127	9.2	7.1
CY	-6.7	-81.6	-5.8	-26.6	0.8	-2.2	10.0	299.2	86.6	8.7	-1.9
LV	-0.4	-46.8	-8.5	12.3	-5.8	-0.6	-0.7	91.7	40.6	16.9	4.1
LU	7.0	169.2	-2.3	-18.3	9.8	2.5	-5.0	317.4	21.7	4.8	11.3
MT	-1.6	24.8	-7.7	4.5	5.8	0.0	-1.6	155.1	71.3	6.6	4.1
NL	8.8	46.8	-6.0	-12.0	3.3	-8.7	0.2	219.3	71.3	4.7	4.9
AT	2.2	0.4	-4.7	-21.2	4.1	n.a.	2.7	147.4	74	4.3	-0.9
PT	-6.5	-115.4	-4.0	-16.0	-5.3	-8.6	-5.4	223.7	124.1	13.6	-3.7
SL	1.2	-44.9	-4.5	-19.9	0.4	-8.4	-3	113.6	54.4	8.1	-0.7
SK	-1.7	-64.1	-3.2	4.2	0.9	-5.9	3.2	73.1	52.4	14.0	2.6
FI	-0.5	18.4	-8.3	-30.8	4.8	-0.5	9.0	157.8	53.6	8.0	-0.2

Source: [Eurostat](#), accessed on 11 February 2013. Note that these are the latest available data for the reference year 2012, not those presented in the 2014 AMR - [ECFIN](#). Grey boxes means above threshold.

ANNEX 3: Key messages of two briefing papers on the implementation of the macroeconomic adjustment programmes

Briefing paper by CEPS (to be published)

CEPS assesses that two of the four macroeconomic adjustment programmes, Portugal and Ireland's, can be considered a success in the sense that the initial expectations in terms of adjustment, both fiscal and external, were broadly fulfilled. A rebound based on exports has taken hold in these two countries, but a full recovery will take years. In Greece the initial plans were insufficient. While the strong impact of the fiscal adjustment on demand could have been partially anticipated at the time, the resistance to structural reforms was more surprising and remains difficult to cure. The fiscal adjustment is now almost completed, but the external adjustment has not proceeded well. Exports are stagnating despite impressive falls in wage costs. In Cyprus, the outcome has so far been less severe than initially feared. It is still too early to find robust evidence in any country that the programmes have increased the long-term growth potential. Survey-based evidence suggests that structural reforms have not yet taken hold.

The briefing paper will be published on EP homepage in due time. A draft version was distributed to Members in advance of the Economic Dialogue.

Briefing paper by Bruegel (to be published)

Bruegel notes that all four programmes, and in particular the Greek one, are very large financially, compared to previous international programmes: the reason put forward by Bruegel is that the macroeconomic imbalances and the loss of price competitiveness that accumulated prior to the programmes were exceptional. In Greece and in Portugal the programmes were based on far too optimistic assumptions about adjustment and recovery. In all four countries, unemployment increased much more than expected. Although fiscal targets were broadly respected, debt-to-GDP ratios increased in excess of expectations, due to sharp GDP contraction. According to Bruegel, the GDP deterioration is due to the following factors: larger-than-expected fiscal multipliers, negative confidence effects, a poorer external environment (including open discussion on euro breakup), an underestimation of the initial challenges and the weakness of administrative systems and political ownership. The focus of surveillance of conditionality evolved from fiscal consolidation to growth-enhancing structural measures. The Greek programme is the least successful one. Ireland successfully ended the programme in December 2013, but problems remain in the banking system. Exit from the Portuguese programme in May 2014 appears feasible, but should be accompanied by a precautionary credit line. For Bruegel it is too early to make pronouncements on the Cypriot programme, which only started in May 2013, but it can safely be said that there have been major collective failures of both national and EU institutions in the run-up of the programme.

The briefing paper will be published on EP homepage in due time. A draft version was distributed to Members in advance of the Economic Dialogue.