



EUROGROUP

Luxembourg, 8 June 2009

**Spring 2009 orientation debate on budgetary policies:
Orientations for fiscal policies in euro area Member States**

On 8 June, Eurogroup Ministers assessed recent budgetary developments in the Member States and their implications for the euro area as a whole, with a view to providing orientations towards the formulation of government budgets for 2010.

The euro area is experiencing an unprecedented recession and the short term growth outlook remains characterised by exceptional uncertainty. The ambitious policy actions taken by governments and central banks have contributed to stabilising our economies and there are tentative signs that a recovery may be approaching.

Government balances have deteriorated very sharply, mainly reflecting sharp falls in output and fiscal stimulus measures under the European Economic Recovery Plan, as well as the operation of automatic stabilisers. Rising budget deficits and low growth, as well as the support to the banking sector, are feeding into significantly higher public debt levels. The average euro area budget deficit is thus expected to increase from 2% of GDP in 2008 to 5¼ % of GDP in 2009. On current plans and projections, the euro area deficit would further increase to 6½ % of GDP in 2010, while public debt could reach 84% of GDP by 2010, i.e. an increase of 18 percentage points from 2007.

The Eurogroup noted that on average the fiscal stance in the euro area is strongly expansionary in 2009. Given the expected stabilisation and eventual recovery of economic activity in 2010, the Eurogroup concludes that further discretionary budgetary stimulus is not warranted at the current juncture. As soon as a recovery takes hold, and the risks of an economic relapse diminish further, the Eurogroup believes that the balance of fiscal policies should shift to consolidation.

In the light of actual and planned deficits, most euro area Member States will soon be subject to excessive deficit procedures (EDP). In line with the SGP, which provides the appropriate framework for conducting and coordinating budgetary policies balancing the need for stabilising our economies with the need to ensure the sustainability of public finances, the EDPs will be implemented judiciously.

However, the pace of fiscal consolidations should be differentiated across countries, taking into account the pace of the recovery, fiscal positions and debt levels but also the projected cost of ageing, external imbalances and risks in the financial sector. Cases where the sustainability of public finances may be at risk require immediate strong consolidation. In this context, the implications of the ongoing and forthcoming EDPs need to be fully reflected in national fiscal plans.

Ministers are committed to put in place robust medium-term exit strategies that will lead to a timely correction of the excessive deficits and therefore underpin the credibility of our fiscal policies. The forthcoming round of stability programmes will provide the opportunity for Member States to present such strategies.

These strategies should include the following elements:

- ambitious and realistic budgetary targets;
- the consolidation measures being envisaged beyond the next budget year should be spelled out;
- national budgetary frameworks should be strengthened to underpin budgetary discipline and make them more resilient to crises;
- structural reforms to ensure the long-term sustainability of public finances, in particular in the area of age-related expenditure should be implemented.

Ministers are committed to improve the coordination of the implementation of national recovery measures in order to avoid unintended negative spillover effects and to fully implement the surveillance framework defined by the SGP.
