EUROFRAME-EFN

Fiscal Policy in the euro area

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EUROFRAME-EFN Regular Policy Monitoring

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Fiscal stance in the euro area

- Growth prospects: 1.5% this year and 2% in 2006
  - Lower than in SPs (resp. 2.3% and 2.4%)
- Fiscal deficits to stand around 2.6% both in 2005 and 2006 (2.7% in 2004)
  - Larger than in SPs (resp. 2.3% and 1.8%)
  - Higher deficits mainly due to lower growth
- Fiscal stance close to neutral in 2005, slightly restrictive in 2006

Expected fiscal stance in the euro area

	2003	2004	2005	2006
Euro Area GDP growth and fiscal balances				
Real GDP growth, per cent	0.5	1.8	1.5	2.0
Fiscal balance, per cent of GDP	-2.8	-2.7	-2.6	-2.5
One-off measures, per cent of GDP	0.4	0.2	0.3	0.1
Fiscal impulses, per cent of GDP				
Germany	-0.8	-0.3	-0.4	-0.5
France	0.1	-0.4	-0.2	-0.6
Italy	0.6	-1.1	-0.3	-0.8
Spain	-0.5	-0.4	0.6	0.1
The Netherlands	-0.2	-1.0	-1.1	-0.2
Belgium	-0.1	1.4	0.3	0.8
Austria	0.4	0.0	1.0	0.3
Finland	1.8	1.0	0.3	0.4
Portugal	-0.1	-1.1	-0.9	-1.2
Greece	1.9	1.3	-1.0	-1.5
Ireland	-2.1	-0.8	-0.7	0.7
Euro area-10	**-0.1**	**-0.4**	**-0.2**	**-0.4**

► Fiscal stance to be restrictive or neutral in most countries (exceptions: Belgium, Austria, Finland)

Improving the implementation of the SGP

- **Agreement endorsed by the European Council of 22 March**
  - reaffirms that the reference values of 3% of GDP for the deficit ratio and 60% for the debt ratio continue to be the centrepiece of multilateral surveillance
  - but also states that the economic rationale of the budgetary rules must be enhanced and that heterogeneity must be taken in consideration in a European Union of 25 countries.
- **Two views expressed within EUROFRAME-EFN**

Two views on: ‘**Improving the implementation of the SGP’**

- **Some of us are worried that the agreement will be detrimental to budgetary discipline:**
  - Will lead to higher government deficits
  - Insufficient budgetary consolidation
- **Some of us regret that criteria like the 3% of GDP threshold, the MTO of close-to-balance or in surplus budgetary positions remain**
  - The policy framework should only prevent negative externalities (excessive inflation, current account deficits)
  - Domestic fiscal autonomy should be reaffirmed