

Brussels, 16 September 2016
ecfin.cef.cpe(2016)5654465

To the members of the Eurogroup

Subject: Eurogroup of 9 September 2016

Dear Colleagues,

I would like to share with you the main content and course of our discussions at the Eurogroup meeting of 9 September 2016 in Bratislava, to which we welcomed Petteri Orpo, the newly appointed Finnish Minister of Finance and Alenka Smerkolj, the Interim Slovenian Minister of Finance. Our meeting was attended by Vice-President Valdis Dombrovskis, Commissioner Pierre Moscovici, ECB's President Mario Draghi and Executive Board Member Benoit Coeuré, and ESM Managing Director Klaus Regling. We were also joined by Poul Thomsen, Director of the IMF's European Department, for the discussions on Greece.

1. Greece – state of play

We were informed by the institutions and the Greek Minister on the state of play of implementation of the milestones and the progress in clearing arrears, which are conditions for the further disbursements under the already approved second tranche of the financial assistance programme. While progress was reported as mixed, with difficulties especially on the privatisation and energy front, a certain intensification of work in recent days was also noted. The ESM reminded us that the availability period of the outstanding EUR 2.8 billion sub-tranche will expire by the end of October. The IMF informed us that an Article IV review would be carried out after the visit of the institutions in the following week. We also expressed concerns on the recent developments related to the criminal investigation concerning the former President as well as senior staff of the Hellenic Statistical Authority (ELSTAT) regarding the alleged falsification of fiscal data. It was recalled that EUROSTAT has consistently validated ELSTAT fiscal statistics produced from 2010 onwards.

We strongly encouraged the Greek government as a whole to pick up the speed of implementation of the remaining milestones, also in view of the second review. Against this background, we were comforted by the Greek authorities' commitment to complete all the milestones in a timely manner.

I concluded that we will monitor the situation closely in the coming weeks.

2. Thematic discussion: spending reviews

We exchanged views on improving the quality of public expenditure in the euro area through the use of spending reviews, in the context of our thematic discussions on growth and jobs. The Commission argued that the use of spending reviews was particularly relevant in the euro area to support both fiscal responsibility and growth-enhancing structural change in public spending. It welcomed the exchange of best practices among Member States and highlighted the importance of an independent evaluation of policies and of transparent data.

We welcomed the Commission's analysis and the proposed common principles derived thereof. A number of Ministers shared their national experiences with regard to the design and conduct of spending reviews and agreed on their usefulness to free up fiscal space. The need to generate ownership amongst national line Ministries and across levels of government was highlighted. It was also noted that the implementation of spending reviews had to take due account of the country-specific context.

We agreed on the set of common principles for improving expenditure allocation in the euro area and adopted a statement to this effect (see Annex). We agreed to revisit this workstream on a regular basis starting in the first half of 2017, taking stock of further progress in implementing spending reviews in euro area Member States.

3. Current fiscal issues

(a) DBP process

The Commission briefly informed us of its proposals to ensure an effective Draft Budgetary Plans process this year and notably the question of how to handle the early and late submission of DBPs. We agreed that DBPs should all be submitted in a specific time window, namely between the 1 and 15 October, to enable an orderly review. Further work is needed on the issue of the submission of no-policy-change plans. We agreed that changes to the rules should be reflected in targeted improvements to the 2-pack Code of Conduct, which would need to be endorsed by the Ecofin Council.

(b) EDP process following the decisions on ES and PT

The Commission informed us that a structured dialogue between the Commission and the European Parliament needed to take place before the Commission could propose the suspension of commitments of structural funds. On a more general note, the ECB stressed that consistent implementation of the current fiscal framework was essential to preserve its credibility and was also a necessary foundation for further integration steps.

The Commission also recalled that Spain and Portugal were expected to report on effective action taken by 15 October, following the adoption by the Council of the EDP decisions under Article 126(9) TFEU, also mentioning possible further steps under the EDP. The Spanish Economy Minister stated that a report and a no-policy-change DBPs would be submitted by the agreed deadline and expressed confidence that Spain would meet its fiscal targets in 2016. The Portuguese Minister also confirmed that the budget execution and measures taken are in line with the fiscal targets. We will return to the DBPs later in the autumn.

(c) Simplifying the implementation of the SGP – state of play

The President of the EWG informed us on the state of play of technical work on simplifying and increasing the predictability of SGP within the existing rules. Discussions are focusing 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.

4. Preparation of international meetings: exchange rate developments

As customary, we took stock of recent exchange rate developments ahead of upcoming international meetings, on the basis of an assessment by the Commission and the ECB. The Commission explained that over the past three months the euro remained broadly unchanged in nominal-effective terms, though this masked significant swings in the euro's bilateral exchange rate against other major currencies. During this period exchange rate developments had been primarily driven by the impact of the UK referendum and the relative cyclical conditions and monetary policy stance in Europe and the US. These two factors would continue to play an important role in the months to come. We broadly concurred with the views of the Commission and the ECB on exchange rate matters in view of upcoming international meetings.

Yours sincerely,

Jeroen DIJSSELBLOEM

Eurogroup statement – Thematic discussions on growth and jobs Common principles for improving expenditure allocation

The Eurogroup considers spending reviews to be a useful tool for improving the quality of public finances. They offer a complementary means of supporting fiscal responsibility through reviewing priorities in public expenditure, and can contribute to a more growth-friendly composition of the budget. They have particular relevance for the euro area, where sound fiscal policies are a key matter of common interest and whose Member States have chosen to closely coordinate fiscal policies. In times of high public debt and historically low economic growth rates, there is more need than ever to ensure that taxpayers' money is used efficiently. The Eurogroup therefore calls on euro area Member States to actively use spending reviews.

The Eurogroup has looked at the experience with spending reviews in euro area Member States and beyond, and noted a number of principles that need to be followed if spending reviews are to have an optimal impact on the quality of public spending. The Eurogroup therefore endorses the following set of common principles for improving the quality of public finances through the use of spending reviews:

- **Strong and sustained political commitment** at a high national level, throughout the project, is essential for successfully carrying out spending reviews and implementing their findings into meaningful reforms.
- **The design and implementation** of spending reviews should follow best practices that include: (i) a clear strategic mandate specifying the objectives (potentially including quantified targets) the scope (a significant share of general government spending across several policies) and a centre of coordination, (ii) the use of pilots to build expertise, (iii) the provision of adequate resources and access to data, (iv) the use of guidelines for consistency in producing diagnosis, baselines, reform options and implementation roadmaps, (v) the use of fact-based analysis linking spending across budget and administrative structures to policy outcomes.
- **Monitoring and communication to the public** on the progress and outcome of reviews should be regular and transparent. Spending reviews themselves should be subject to independent ex-post evaluation to learn lessons for future reviews.
- The ambition and conclusions of a spending review should be consistent with **annual and multiannual budget planning**. The national fiscal framework should include the principle of running regular spending reviews to inform budget making.

The Eurogroup approves these common principles as a reference point for reviewing national reform efforts to improve the quality of public finances in euro area Member States. The Eurogroup thus invites the Commission to assess developments in this field within its usual processes and surveillance mechanisms, with a view to allowing periodic

monitoring by the Eurogroup. Also to this end, the Eurogroup invites its preparatory committees and the Commission to develop a workstream on the exchange of best practices and lessons learnt on spending reviews undertaken in euro area Member States. The Eurogroup expects to revisit this workstream on a regular basis starting in the first half of 2017, drawing on further experiences made in Member States.