Assessment of the prospective fiscal stance appropriate for the euro area

Thygesen, N.; Beetsma, R.; Bordignon, M.; Duchene, S.; Szczurek, M.

Publication date
2017

Document Version
Final published version

Citation for published version (APA):
Assessment of the prospective fiscal stance appropriate for the euro area

20 June 2017
Composition of the European Fiscal Board

Niels THYGESEN
Chair
Professor Emeritus of International Economics at the University of Copenhagen and former adviser to governments and international institutions, Denmark

Roel BEETSMA
Member
Professor at the University of Amsterdam and Vice-Dean of the Faculty of Economics and Business, The Netherlands

Massimo BORDIGNON
Member
Professor and Director of the Department of Economics and Finance at the Catholic University of Milan, Italy

Sandrine DUCHÊNE
Member
General Secretary of AXA France in charge of audit and compliance, France

Mateusz SZCZUREK
Member
Former Finance Minister, teacher at Warsaw University, and EBRD Associate Director, Poland


Comments on the report should be sent to:

Martin Larch
Head of Secretariat of the European Fiscal Board
European Commission
Office CHAR 13/49
B-1049 Brussels

Email: martin.larch@ec.europa.eu

Cut-off date: 14 June 2017

The opinions expressed in this document are the sole responsibility of the European Fiscal Board and do not necessarily reflect the views and positions of the institutions the Members of the Board are affiliated or work with.
## Contents

Foreword 3

1. Macroeconomic situation and outlook 5
2. Cyclical conditions 9
3. Fiscal policy developments 12
4. Overall assessment 16

Key indicators for the euro area 18
Glossary 19
Foreword

Fiscal policy is a powerful instrument of macroeconomic policymaking. If used appropriately and with the necessary degree of prudence, it can help stabilise economic activity by mitigating the impact of recurring economic booms and busts on employment and income. If used inappropriately, it may add to the volatility of economic activity, lead to an unhealthy accumulation of government debt and weigh on the effectiveness of monetary policy.

In the euro area, fiscal policy is a prerogative of national governments, while the budget of the European Union is required to balance its accounts annually and is too small to serve as a fiscal stabilisation tool for the euro area as a whole. In order to minimise the risks of fiscal policies undermining the common stability-oriented monetary policy, national fiscal policies are expected to observe common rules, known as the Stability and Growth Pact (SGP).

The key objective of the SGP is to direct national governments towards safeguarding the long-term sustainability of public finances while letting automatic stabilisers dampen temporary swings in national economic activity. In the late 1980s and early 1990s, when the euro area governance framework was agreed, an appropriate fiscal stance for the euro area as a whole was assumed to arise from the sum of national fiscal policies. The underlying argument was that, as long as Member States faithfully abided by the commonly agreed rules, automatic fiscal stabilisers would also ensure an appropriate degree of stabilisation in the euro area as a whole. In hindsight, we have had to realise that (i) economic shocks may become too large to be dealt with by national automatic stabilisers and centralised monetary policy; and (ii) cross-country spill-over effects of fiscal policy are not internalised by national governments and are likely to become larger when monetary policy is facing the zero lower bound of nominal interest rates, as is the case right now. In recent years, it has become apparent that the pursuit of national policies does not necessarily lead to an outcome that works for the currency area as a whole. In 2015 and 2016, national fiscal policies added up to a broadly neutral fiscal stance for the currency area as a whole while available economic indicators pointed to a persistent and considerable degree of economic slack and the European Central Bank (ECB) was overburdened with sustaining the economy by avoiding deflation.

The advisory European Fiscal Board (EFB) was launched in autumn 2016 as part of the broader effort to enhance the EU’s economic governance framework as outlined in the Five Presidents’ Report of June 2015. The EFB consists of five international experts appointed on the basis of merit and expertise. One of its two main tasks is to form an economic judgment on the appropriate fiscal stance at the euro area level, against the background of EU fiscal rules(1). By doing so, it should generate debate on aspects of the euro area governance framework.

This document contains the EFB’s first advice on the prospective fiscal stance appropriate for the euro area. The advice will be issued once a year for the following year. While the fiscal stance of individual Member States has received regular attention at national and European level, the euro area as a whole has been a virtual entity, the result of a simple statistical aggregation. The EFB will look at the euro area as a single entity.

---

The underlying motivation is not to fine-tune discretionary fiscal policy interventions, something that proved to be impractical. Rather, since the euro area is more than the sum of its parts, assessing developments from the aggregate perspective adds value to the policy debate. In line with its advisory role, the EFB’s assessment aims to provide input to Member States’ budgetary plans for the forthcoming year and to the Commission’s and the Council’s assessment of them.

The notion of a euro area fiscal stance was not a central piece in the original Maastricht governance framework, which was mainly focused on sustainable national public finances. It gained strength during the 2008-2009 crisis, with a coordinated fiscal stimulus commonly agreed by the Member States in the European Economic Recovery Plan. Although the notion is certainly more relevant at times of crisis, the need for monitoring also at other times whether the sum of national fiscal policies adds up to the best possible aggregate outcome for the euro area as a whole will arise more regularly. In the unusual current situation where monetary policy is likely to remain very accommodating for some time still, national fiscal policies have become more effective both within and across borders. At the same time, improving the sustainability of national public finances remains central and must be pursued vigorously at a time of steady growth.

The EFB’s other key task is to assess the application of the EU fiscal rules. The fact that, in its first public document, the EFB is providing advice on the euro area fiscal stance rather than looking at how the commonly agreed rules for national fiscal policymaking are observed must in no way be understood as a preference for one task over the other. The Board’s choice is determined by the sequencing of policy decisions in the annual governance cycle of the European Semester: advice on fiscal policy making for the year ahead needs to be shared before Member States start preparing their budgets. Similarly, a reasoned judgment of how EU fiscal rules have been applied over the course of the annual EU governance cycle can only be formed once the relevant decisions have been taken and carefully assessed. This is why the Board will publish its annual report in autumn with our analysis of how existing rules were applied during the preceding annual EU surveillance cycle.
1. MACROECONOMIC SITUATION AND OUTLOOK

A steady but subdued-inflation recovery has taken hold in the euro area. In the face of a relatively wide range of internal and external headwinds — including the UK’s vote to leave the EU, geopolitical tensions, and terrorist attacks — real GDP continues to follow a fairly steady albeit measured pace of growth in the euro area. In 2016, it increased by 1.8%, posting the third positive reading since the end of the double-dip recession in 2013. As in the preceding years, growth has been mostly driven by private consumption. Price and wage developments have been exceptionally muted. Both headline and core inflation have been well below the ECB’s target; in 2016, inflation, as measured by the annual increase of the harmonised index of consumer prices, stood at 0.2% and core inflation, which excludes energy and food prices, stood at 0.8%. Leaving aside low energy prices, very moderate wage growth has been an important contributing factor. Real unit labour costs were still declining in 2016, although at a much slower rate than in previous years.

The pace of recovery has been slow compared to both past experience and other economic areas. Slow and protracted recoveries are to be expected after major financial market dislocations like those of 2008 and after. The correction of massive imbalances accumulated in the run-up to the post-2007 crises has not been fully completed and weighs on the pace of economic growth. However, the euro area has also been lagging behind other developed economies including the US, which initially was at the centre of the global economic and financial crisis. Euro area real GDP returned to its pre-crisis level only in 2015, while in other advanced economies that experienced a post-2007 banking crisis, output was back to the pre-crisis level three years earlier(7).

The economy of the euro area is deeply scarred by the crisis years. Investment spending, essential to future growth, posted a particularly sharp and persistent drop during the post-2007 downturn. It started growing again with the general economic recovery in the euro area but still falls markedly short of pre-crisis trends. This is mostly because of ongoing deleveraging of firms and households, subdued expectations of future growth and persisting elements of uncertainty. While access to credit no longer seems to be an obstacle to investment, the high level of non-performing loans in the euro area banking sector encumbers financial intermediation and monetary transmission. Labour market conditions have also improved over the course of the recovery, as evidenced by the declining rate of unemployment. However, the number of jobseekers, especially those out of work for a year or more, remains high as a percentage of the labour force. Albeit declining in 2016, involuntary part-time employment also remains high, accounting for over 30% of total part-time employment.

The shortfall of total euro area domestic demand relative to GDP is large. In 2016, the euro area current account recorded a surplus of around 3.3% of GDP. This sizeable surplus is the result of a profound adjustment process imposed by the post-2007 crises. In the pre-crisis period (2000-2007), the current account of the euro area was broadly balanced as deficits in some countries were counterbalanced by surpluses in other parts of the single currency area. It started recording increasing surpluses in the aftermath of the 2008-2009 downturn with a sharp compression of aggregate demand, mainly in countries that had been running sizeable current account deficits before. The depreciation of the euro in 2015 provided additional impetus by helping exports.

Euro area trends mask substantial differences between countries. 2016 was the

---

first post-crisis year in which all euro area countries, including Greece, recorded non-negative real GDP growth. However, the pace and the profile of the economic recovery have varied greatly between participating Member States; growth is stronger and more broad-based in countries like the Netherlands and Spain, and more subdued and fragile in France and Italy. The recovery in Germany is broadly in line with the euro area average but longer lasting and much more solid in terms of overall labour market performance. Germany is also the largest contributor to the euro area current account surplus.

Monetary policy has been facing the zero lower bound of policy rates; it is likely to remain accommodative. Since late 2014, the ECB has reduced its interest rate on the main refinancing operations to near zero, and the interest rate on the deposit facility was set negative. In the context of persistently low inflation and a weak economic recovery, in March 2015 the ECB launched its expanded asset purchase programme. Asset purchases have slowed since April 2017, but they are intended to be carried out until at least the end of 2017. While the ECB’s asset purchases may expire then, the Governing Council of the ECB has recently stated that it expected ‘the key ECB interest rates to remain at their present levels for an extended period of time, and well past the horizon of the net asset purchased’.

Accommodative monetary policy significantly enhances the effects of fiscal policy and cross-country spill-overs. The impact of discretionary fiscal policy on domestic demand is expected to be significantly higher when monetary policy is accommodative and interest rates are kept near the zero lower bound. Importantly for the euro area, this also increases cross-country fiscal spill-overs, strengthening the case for coordination(3).

Moreover, fiscal stimuli are generally found to be more effective when many households face financial difficulties. The effects of fiscal expansion are more limited in normal times when policy rates rise, the exchange rate appreciates and the financial situation of households normalises.

Economic sentiment has been improving, but growth forecasts remain broadly stable. The latest confidence and activity indicators are well above historical averages. Nevertheless, most forecasters expect the measured pace of economic recovery recorded in the past two years to continue in 2017 and 2018. Available projections for real GDP growth are around 1¾ % per year in both years. The relative contribution of investment is assumed to edge up only marginally. Headline consumer price inflation, which picked up at the end of 2016 and early 2017, mainly on the back of rebounding energy prices, is projected to recover from the unusual lows of preceding years, but to still average below the ECB’s inflation target; with core inflation lower still. Unemployment is expected to continue its descent, yet to remain considerably higher than in the US and other non-euro area economies, keeping wage growth contained.

The current outlook is surrounded by substantial risks. On the external front, the timing and size of key economic policy initiatives on the part of the US administration remain unclear. This also holds true for measures that may have beneficial or adverse effects on the rest of the world, e.g. major US tax reforms or trade initiatives. Another

---

3 Simulations with the European Commission QUEST macroeconomic model show that, at the zero lower bound of nominal interest rates, the domestic GDP effect of a fiscal expansion, e.g. an increase in government consumption, is around 40 % to 50 % higher when implemented jointly in all euro area countries as compared to when a country acts alone. Estimates obtained by other institutions are in the same order of magnitude. See In ’t Veld, J. (2013), ‘Fiscal consolidations and spill overs in the Euro Area periphery and core’, European Economy — Economic Papers, 506 and In ’t Veld, J. (2016), ‘Public Investment Stimulus in Surplus Countries and their Euro Area Spill Overs’, European Economy — Economic Briefs, 16.
pervasive factor of uncertainty in the global environment is the ongoing rebalancing of the Chinese economy; abrupt shifts in that process would have important repercussions for the euro area. On the domestic front, the risk profile has been unchanged for a number of quarters: the UK’s decision to leave the EU, the strength of populist and anti-EU/euro parties in some Member States, and remaining vulnerabilities in the euro area banking sector feature among the most prominent downside risks. One of the few upside risks is a stronger investment cycle. Favourable financing conditions and a high rate of capacity utilisation could lead to stronger investment growth, if and when the economic and political environment remains stable.

Graph 1.1: Euro area real GDP growth and its components

Graph 1.2: Real GDP growth in the euro area: range of forecasts

Graph 1.3: Real GDP (index)

Graph 1.4: Gross fixed capital formation (index)
Graph 1.5: Real GDP growth in the euro area and dispersion across Member States

![Real GDP growth and dispersion graph](image)

Source: Commission 2017 spring forecast

Note: Unweighted variance, corrected for GDP revision in Ireland in 2015.

Graph 1.6: Total and long-term unemployment

![Total and long-term unemployment graph](image)

Source: Commission

Graph 1.7: Inflation and wage growth in the euro area

![Inflation and wage growth graph](image)

Source: Commission 2017 spring forecast

Graph 1.8: Inflation expectations

![Inflation expectations graph](image)

Source: ECB Survey of Professional Forecasters (2017Q2)
2. CYCLICAL CONDITIONS

The amount of economic slack in the euro area is shrinking. As the effects of the 2007 financial crisis and the 2011 sovereign debt crisis gradually unwind, in 2017 the euro area economy is still below its potential level for the ninth consecutive year. According to the Commission 2017 spring forecast, the output gap is projected to narrow from -1.1 % in 2016 to -0.6 % in 2017 before fully closing in 2018(4). This profile is broadly in line with earlier Commission forecasts. Based on the conventional ‘rule of thumb’ linking contemporaneous changes in output and unemployment, an output gap of -1 % amounts to between 5 and 7 million of additional unemployed people in the euro area as a whole(5).

Current output gap estimates are subject to a high degree of uncertainty. The prolonged economic downturn is likely to have led to lasting effects on the labour market and the capital stock which weigh on the euro area’s economic ‘speed limit’. At the same time, and in line with past financial crises, the recovery is likely to be more drawn out than in normal cycles. Such effects add to the inherent difficulty of quantifying the extent to which the current lacklustre economic performance is indicative of a persistent degree of slack or of lower growth potential. In particular, the IMF estimates the euro area output gap at -0.7 % in 2017, essentially in line with the Commission’s latest estimate, but still expects some residual slack of -0.3 % in 2018. Currently available projections by the OECD indicate an output gap of -0.9 % in 2017 and closing in 2018(6).

The current account surplus in the euro area remains at a record-high level. The current account surplus is projected to decline to 3.0 % of GDP in 2017, from 3.3 % in 2016, but this is still substantially higher than the pre-crisis level of a broadly balanced current account between 2000 and 2007. While the government sector has recorded steadily increasing savings since 2010, as a result of the prolonged period of fiscal consolidation in 2010-2014 and the recovery, these developments have not been offset by the reduction in household savings and the recent increase in corporate investments.

The financial cycle is recovering too, but remains muted. A number of studies underline the importance of financial variables in assessing the degree of economic slack(7). In the euro area, lending to households and non-financial corporations has recovered substantially since 2014, partly because of the record-low interest rate environment and a steady improvement in loan supply, on the back of progress in banking sector repair. However, growth in credit to the private sector remains below any rates recorded between 1999 and 2007, signalling lacklustre demand, especially for investment, and still high levels of non-performing loans in the banks.

Prices and wage developments do not indicate imminent pressures. According to the Commission 2017 spring forecast, annual average consumer price inflation is projected to

---

4 The Commission forecast is based on the so-called no-policy change assumption. For any given year, it factors in the estimated effect of all policy measures that have been made public in a credible manner and with a sufficient degree of detail by the cut-off date of the forecast.

5 The reported numbers assume an Okun coefficient, which captures the nexus between the output gap and cyclical unemployment, of 0.3 to 0.4.

6 The IMF estimates are taken from the April 2017 World Economic Outlook. The latest available OECD output gap estimates for the euro area are from the June 2017 Economic Outlook. Differences in output gap estimates across institutions reflect a series of factors such as the timing of the forecast, different forecasts for headline variables such as real GDP growth, different assessments of the impact of policy measures and different methodologies for estimating the output gap.

increase from 0.2 % in 2016 to 1.6 % in 2017, mostly driven by a rebound in energy prices, and to decline again in 2018 to 1.5 %. The ECB’s survey of professional forecasters for the second quarter of 2017 shows average inflation expectations of 1.6 %, 1.5 % and 1.7 % for the years 2017, 2018 and 2019 respectively, still below the ECB’s target. Nominal compensation per employee is expected to accelerate in 2017 and 2018. While this is consistent with the ongoing recovery in jobs, the growth rates of nominal wages are expected to be lower than at any point between 1999 and 2008.

**Heterogeneity across euro area countries is decreasing, but remains pronounced.** Divergence of economic growth has markedly declined in the euro area from 2014 onwards, as Member States most affected by financial stress have seen a steady recovery. But the distribution of output gaps remains wide. Based on the Commission 2017 spring forecast, eight Member States accounting for about 75 % of the euro area economy are expected to show negative output gaps in 2017. The situation is expected to improve in 2018, when only five Member States, accounting for about 30 % of euro area GDP, are projected to show a negative output gap.

**Overall, while there is still a measurable degree of slack in 2017, the picture for 2018 is less clear.** In 2017, both conventional output gap estimates and other indicators of prevailing cyclical conditions suggest that the euro area economy is still operating below its potential. Leaving aside minor differences, major international economic institutions share this view. For 2018, conventional output gap estimates suggest that the euro area is at or near its potential. However, the slow recovery in prices and wages, the unusually slow revival of investment, subdued developments in the financial sector and the large external surplus raise some unresolved questions about whether the post-crisis recovery remains incomplete.

**Graph 2.1: Euro area output gap**

![Graph 2.1](image)

**Graph 2.2: Loans to non-financial private sector**

![Graph 2.2](image)

**Source:** Commission 2017 spring forecast

**Note:** ‘Negative’ (‘Positive’) shows the total output gap, weighted by GDP, of Member States with a negative (positive) output gap.

**Source:** ECB

**Note:** Loans adjusted for sales and securitisation.
Graph 2.3: Current account in the euro area

Source: Commission
Note: The composition of surplus countries and deficit countries changes over time.

Graph 2.4: ‘Standard’ and ‘finance-neutral’ output gaps

Source: Commission
Note: The finance-neutral output gap is an extended HP filter which takes into account financial variables, and is derived from the following model:

\[ y_t = p_t + c_t \]
\[ p_t = 2p_{t-1} - p_{t-2} + \epsilon_p^t \]
\[ c_t = \Phi c_{t-1} + \gamma z_t + \epsilon_c^t \]

Where \( y_t \) is output in \( t \), \( p_t \) is potential output, \( c_t \) is the output gap, \( \epsilon_p^t \) and \( \epsilon_c^t \) are white noise processes with zero mean and constant but different variances, and \( z_t \) is a vector of explanatory financial variables which includes credit growth, house price inflation and the real interest rate. For more details on finance-neutral output gaps, see Borio, C., P. Disyatat and M. Juselius (2013), ‘Rethinking Potential Output: Embedding Information about the Financial Cycle’, BIS Working Papers, No 404, February 2013.
3. FISCAL POLICY DEVELOPMENTS

Following a protracted period of consolidation, fiscal policy turned broadly neutral in 2015. The aggregate budget deficit of the euro area steadily declined from 6.3 % of GDP in 2009 to 1.5 % of GDP in 2016. Most of the fiscal correction occurred between 2010 and 2014, at a time when the euro area economy was still weak, including a new recession in 2012 and 2013. This extended period of fiscal retrenchment, implemented against the backdrop of the sovereign debt crisis, gave way to a marginal fiscal expansion in 2015 and 2016 — as measured by the change in the structural primary budget balance reported in the latest Commission forecast — while the aggregate level of economic activity was still estimated to be significantly below its potential.

Under current policies, the euro area fiscal stance is expected to be mildly expansionary in 2017 and 2018. Based on the latest Commission forecast, the structural primary surplus is estimated to decline from 1.2 % of GDP in 2016 to 0.9 % in 2017 and 0.6 % in 2018. This forecast incorporates the effects of all policy measures that had been publicly announced with a sufficient degree of detail by the cut-off date of the forecast (25 April 2017), irrespective of whether they are consistent with the SGP provisions or not. The latest OECD projections also point to a slightly expansionary fiscal stance in both 2017 and 2018. By contrast, the latest IMF projections suggest a mild fiscal expansion in 2017 followed by a broadly neutral fiscal stance in 2018.

The share of growth-enhancing expenditure in government budgets remains low. The fiscal adjustment after the crisis had a significant impact on the composition of government expenditure. Most importantly, investment expenditure as a share of GDP has been significantly reduced in many Member States. At the aggregate level, it has dropped from 3.1 % of GDP on average before the crisis to 2.7 % of GDP in recent years, while government consumption and transfers have increased as a share of GDP (see Graph 3.6).

The very high aggregate debt ratio in the euro area has been edging downward since 2015. The debt ratio is projected to decline from 91.3 % of GDP in 2016 to 90.3 % in 2017 and 89.0 % in 2018. Debt developments in the euro area have greatly benefitted from an exceptionally low interest rate environment. Compared to pre-crisis years, interest expenditure dropped by close to 1 % of GDP in the euro area aggregate, and the ‘snow-ball effect’ — the differential between interest rates and nominal GDP growth — has been negative, that is, has been reducing the debt ratio since 2015.

Current policies are expected to keep the debt ratio on a declining path in the near term but ageing costs are set to exert new upward pressure in the longer run. In the baseline scenario of the Commission’s latest debt sustainability analysis, the aggregate debt ratio of the euro area is projected to be on a slightly declining trend until the mid-2020s, dropping just under 85 % of GDP. A new increase is projected in the second half of the 2020s as a result of the budgetary costs of ageing. Hence, the aggregate debt ratio is expected to remain far above the 60 % of GDP reference value for the foreseeable future. The assessment also indicates significant sensitivity to interest rate shocks: a permanent increase in interest rates by one percentage point over and above the assumed normalisation of nominal interest rates would largely offset the projected

---

8 The difference compared to Commission and OECD forecasts is also due to the fact that the IMF’s fiscal projections include all fiscal policy measures that are judged likely to be implemented.

9 This effect has, however, been debt-increasing in some Member States.

10 This scenario already assumes that long-term market interest rates converge to 3 % in real terms and annual average inflation to 2 % by 2026.
decline in the baseline scenario, with aggregate debt staying well above 85% of GDP and embarking on a stronger upward trend in the mid-2020s(1).

**Government debt levels and dynamics differ significantly across countries.** In the current framework, fiscal policy is implemented at national level and sustainability is first and foremost a country-specific issue. Only 7 out of the current 19 euro area Member States, typically the small ones, are expected to have government debt levels below 60% of GDP in 2017 and 2018; these Member States account for less than 10% of euro area GDP. Among the Member States with a debt ratio in excess of 60% of GDP in 2017 and 2018, there are nine where, based on available Commission projections, the ratio is expected to decline in both years. This group represents about half of euro area GDP.

**Finally,** despite the favourable interest rate environment, the debt ratios of two euro area Member States which already exceed 60% of GDP are projected to increase further in both 2017 and 2018.

**Some Member States still face sustainability challenges in the medium term.** Notable challenges pertain to the capacity of some Member States to reduce their debt level towards the 60% of GDP reference value in line with the SGP debt rule over the medium term. Nevertheless, overall the latest Commission sustainability assessment suggests that sustainability challenges in the long term are largely contained. That assessment leaves aside country-specific political risks. The latest assessments by the IMF indicate significant vulnerabilities in countries with a high debt level, especially to shifts in market sentiment(2).

---

**Graph 3.1: Fiscal stance in the euro area**

![Graph 3.1](image_url)

**Graph 3.2: Fiscal stance across euro area Member States in 2017**

![Graph 3.2](image_url)

---

**Notes:**

11 Conversely, if interest rates were permanently one percentage point lower than in the baseline, the aggregate debt ratio would decline to 80% of GDP by the late 2020s. For more details see the European Commission Debt Sustainability Monitor, 2016 at: https://ec.europa.eu/info/publications/economy-finance/debt-sustainability-monitor-2016_en.

12 The IMF’s assessment for non-programme countries covers a shorter period (five years) than the Commission’s debt sustainability analysis, which covers a 10-year horizon, and it uses different thresholds for assessing risks.
Graph 3.3: Shadow short rate

Source: Commission
Note: Lower bound at -0.40%, recorded in March 2016 for the ECB deposit facility rate. The shadow short rate represents the interest rate that would prevail in a hypothetical world where economic agents cannot turn to cash at the zero lower bound, thereby enabling interest rates to fall arbitrarily deep into negative territory. It is computed by estimating the price of this 'cash option' and subtracting it from the observable short-term rate, which is truncated at the zero lower bound. See Krippner, L. (2012), ‘Modifying Gaussian term structure models when interest rates are near the zero lower bound’, Reserve Bank of New Zealand Discussion Paper, No 2012/2.

Graph 3.4: Short- and long-term interest rates

Source: ECB
Note: Real rates computed by subtracting core inflation from the nominal rates.

Graph 3.5: Private and government investment, euro area aggregate, volume

Source: Commission 2017 spring forecast

Graph 3.6: Composition of government expenditure; euro area aggregate

Source: Commission 2017 spring forecast
Graph 3.7: Euro area fiscal stance – current projections and SGP requirements

Source: EFB calculations and Commission 2017 spring forecast.

Note: Restrictive reading of SGP: Member States implement the structural adjustment required under the SGP, including the leeway granted under the flexibility clauses in the preventive arm. Member States that have over-achieved their MTO keep their structural balance unchanged. Less restrictive reading of SGP: Same as above for Member States in the preventive arm which are not at their MTO, while Member States with fiscal space entirely use it and countries in the corrective arm adopt a ‘nominal strategy’, i.e. they comply with nominal targets set by the Council, which in an economic upturn is less demanding than complying with the structural requirement.

Graph 3.8: Expected national fiscal stances and SGP requirements

Source: EFB calculations and Commission 2017 spring forecast.

Note: Restrictive reading of SGP: Member States implement the structural adjustment required under the SGP, including the leeway granted under the flexibility clauses in the preventive arm. Member States that have over-achieved their MTO keep their structural balance unchanged. Less restrictive reading of SGP: Same as above for Member States in the preventive arm which are not at their MTO (as a result, the red and white diamonds overlap), while Member States with fiscal space entirely use it and countries in the corrective arm adopt a ‘nominal strategy’, i.e. they comply with nominal targets set by the Council, which in an economic upturn is less demanding than complying with the structural requirement.
4. OVERALL ASSESSMENT

This section first focuses on the prospective fiscal stance appropriate for the euro area in 2018. The assessment is meant to inform preparations for the forthcoming draft budgetary plans for next year. For completeness, it also includes a brief examination of the euro area fiscal stance emerging from budget execution in 2017 and compares it with advice issued last year.

In 2018, a neutral fiscal stance for the euro area as a whole seems appropriate. Current projections of a closing output gap do not support a case for discretionary fiscal expansion, i.e. on top of the effect of automatic stabilisers, at the aggregate level, keeping in mind the continuation of a very accommodative monetary policy. At the same time, we have observed increasing and large external imbalances of the euro area. Moreover, there is a danger of long-lasting effects of low levels of economic activity on the labour market and the capital stock. Therefore, a significant euro-area wide fiscal contraction to accelerate debt reduction over and above the projected decline could weigh on the steady but fairly measured pace of the economic recovery. If economic conditions improve substantially, windfalls should be allocated to debt reduction, especially in the countries with high government debt-to-GDP ratios.

A neutral aggregate fiscal stance in 2018 requires corrections of budgetary trends. Current budget projections by the Commission, which incorporate only policy plans made available with a sufficient degree of detail by the end of April, point to a deterioration in the structural primary balance by 0.3 % of GDP in 2018, that is, a mild fiscal expansion. Therefore, in order to achieve a neutral fiscal stance for the euro area as a whole in 2018, adjustments to current trends are required.(13)

A broadly neutral fiscal stance for the euro area in 2018 could be implemented through differentiated national policies within the parameters of the SGP. Some Member States, whose structural budget balance exceeds the medium-term budgetary objective (MTO), are not making full use of the available fiscal space. If these Member States were to fully use their fiscal space in 2018, while others consolidated as required under the SGP — consolidation is particularly warranted in countries with a high debt ratio — a neutral fiscal stance for the euro area as a whole could be achieved. Making or not making use of available fiscal space — both options are compatible with the SGP. This freedom of choice follows from the asymmetry of the fiscal rules, which do not include provisions for countries over-achieving the MTO.(14) Therefore, achieving the appropriate fiscal stance in 2018, while at the same time respecting the SGP at national level, presupposes coordinated agreement between participating Member States. Implementing the SGP without the use of available fiscal space would lead to a slightly contractionary fiscal stance.

A country-by-country assessment of the fiscal stance highlights tensions with the euro area perspective. While a neutral fiscal stance would be appropriate for the euro area as a whole in 2018, implementation at country level faces a formidable dilemma. From a purely national perspective, cyclical conditions in some Member States with fiscal space are not perceived to warrant fiscal expansion, while fiscal expansion is seen to be justified in

---

(13) The aggregation of government plans presented in the 2017 stability programmes is expected to lead to a marginal improvement in the structural primary balance of the euro area by 0.1 % of GDP. This differs from the Commission 2017 spring forecast partly because some stability programmes were not available at the cut-off date of the forecast and partly because the programmes did not provide a sufficient degree of detail on some planned measures.

(14) Countries that have over-achieved their MTO do not receive a fiscal country-specific recommendation in the context of the European Semester.
Member States with no fiscal space, where SGP rules require consolidation. This dilemma results from the current euro area governance framework, which combines centralised monetary policy with decentralised, rules-based fiscal policy. Individual countries do not factor in spill-overs of national fiscal policies and, more generally, do not plan policies explicitly aimed at the smooth functioning of the euro area more broadly. This also includes the reduction of macroeconomic imbalances. Tensions between the euro area and the national perspective are bound to arise in the current governance framework. Such tensions can only be overcome through enhanced forms of cross-country coordination or further fiscal integration(15).

**Fiscal policy should be rebalanced towards a more growth-friendly composition.** While the available evidence does not give grounds for a fiscal expansion from a euro area perspective in 2018, fiscal policy can still contribute to addressing persisting vulnerabilities in the ongoing economic recovery in a budgetary neutral manner, especially by improving the composition of national budgets. Specifically, public expenditure should be refocused towards investment, which has borne the brunt of fiscal adjustment in the aftermath of the 2009 crisis; the low interest rate environment offers a unique opportunity. In 2016, public investment as a share of GDP was still about one quarter below the level of 2008 (see Graph 3.5). The importance of public investment in supporting the recovery is compounded by the potential complementarity with private investment spending, which also remains fairly weak by pre-crisis standards(16).

In 2017, the fiscal stance for the euro area as a whole is expected to be mildly expansionary. The implementation of Member States’ budgetary plans for 2017 is currently projected to deliver a mild fiscal expansion of 0.3 % of GDP, as measured by the change in the structural primary balance. At the aggregate level, such an outcome would be close to the indications provided by the European Commission in November last year(17). A mild fiscal expansion provides support for the steady but slow pace of economic recovery in the euro area, which in 2017 still shows some signs of economic slack. It comes at a moment when monetary policy is still highly accommodative and when the growth impact of fiscal impulses is higher than in normal times. Also, it takes effect against the backdrop of an aggregate government debt level that has stabilised and, under current policies, is projected to decline slowly in the coming years. However, in some countries, debt developments remain vulnerable to changes in the macroeconomic outlook and in particular interest rate shocks.

Current projections indicate possible deviations from SGP requirements at country level. The Commission 2017 spring forecast suggests that several Member States, under both the preventive and corrective arms, are at risk of deviating from the recommended adjustment path in 2017. A restrictive application of EU fiscal rules, combined with no use of fiscal space where available, would actually be contractionary. In such a scenario, the structural primary budget surplus is estimated to increase by 0.3 % of GDP. A mild fiscal expansion could be compatible with the SGP rules if some Member States made more use of available fiscal space than currently projected.

---

15 The Commission’s Reflection paper on the deepening of the Economic and Monetary Union published on 31 May 2017 includes a number of proposals to strengthen coordination and fiscal integration. The EFB will provide an assessment of these proposals in its next Annual Report.


17 https://ec.europa.eu/info/publications/2017-european-semester-communication-fiscal-stance_en
### Key Indicators for the Euro Area

<table>
<thead>
<tr>
<th>Output</th>
<th>LTA(1)</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>16Q1</th>
<th>16Q2</th>
<th>16Q3</th>
<th>16Q4</th>
<th>17Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic sentiment</strong></td>
<td>Indicator</td>
<td>100.0</td>
<td>93.3</td>
<td>101.4</td>
<td>104.2</td>
<td>104.8</td>
<td>103.9</td>
<td>104.2</td>
<td>104.2</td>
<td>106.9</td>
</tr>
<tr>
<td><strong>Gross domestic product (real)</strong></td>
<td>% ch. on prev. period</td>
<td>0.5</td>
<td>0.3</td>
<td>0.4</td>
<td>0.5</td>
<td>0.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% ch. on prev. year</td>
<td>1.5</td>
<td>-0.3</td>
<td>1.2</td>
<td>2.0</td>
<td>1.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Labour productivity</strong></td>
<td>% ch. on prev. period</td>
<td>0.7</td>
<td>0.3</td>
<td>0.6</td>
<td>1.0</td>
<td>0.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% ch. on prev. year</td>
<td>1.7</td>
<td>1.6</td>
<td>1.8</td>
<td>1.8</td>
<td>1.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Private consumption</strong></td>
<td>LTA(1)</td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
<td>2016</td>
<td>16Q1</td>
<td>16Q2</td>
<td>16Q3</td>
<td>16Q4</td>
<td>17Q1</td>
</tr>
<tr>
<td><strong>Consumer confidence</strong></td>
<td>Balance</td>
<td>-12.6</td>
<td>-18.8</td>
<td>-10.2</td>
<td>-6.3</td>
<td>-7.6</td>
<td>-8.4</td>
<td>-7.9</td>
<td>-8.3</td>
<td>-6.5</td>
</tr>
<tr>
<td><strong>Retail confidence</strong></td>
<td>Balance</td>
<td>-8.0</td>
<td>-12.2</td>
<td>-3.1</td>
<td>1.6</td>
<td>1.5</td>
<td>1.9</td>
<td>1.8</td>
<td>0.4</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Private consumption</strong></td>
<td>% ch. on prev. period</td>
<td>0.7</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% ch. on prev. year</td>
<td>1.3</td>
<td>-0.6</td>
<td>0.8</td>
<td>1.8</td>
<td>2.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Retail sales</strong></td>
<td>% ch. on prev. period</td>
<td>0.8</td>
<td>-0.6</td>
<td>1.5</td>
<td>3.1</td>
<td>2.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% ch. on prev. year</td>
<td>0.8</td>
<td>0.3</td>
<td>0.5</td>
<td>1.0</td>
<td>0.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td>LTA(1)</td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
<td>2016</td>
<td>16Q1</td>
<td>16Q2</td>
<td>16Q3</td>
<td>16Q4</td>
<td>17Q1</td>
</tr>
<tr>
<td><strong>Capacity utilisation</strong></td>
<td>Level (%)</td>
<td>60.8</td>
<td>76.3</td>
<td>60.4</td>
<td>81.3</td>
<td>81.8</td>
<td>81.9</td>
<td>81.5</td>
<td>81.6</td>
<td>82.3</td>
</tr>
<tr>
<td><strong>Production expectations (manufacturing)</strong></td>
<td>Balance</td>
<td>6.2</td>
<td>3.4</td>
<td>7.9</td>
<td>8.0</td>
<td>8.3</td>
<td>6.8</td>
<td>7.3</td>
<td>8.0</td>
<td>11.1</td>
</tr>
<tr>
<td><strong>Gross fixed capital formation</strong></td>
<td>% ch. on prev. period</td>
<td>0.5</td>
<td>1.2</td>
<td>0.0</td>
<td>3.4</td>
<td>1.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% ch. on prev. year</td>
<td>1.4</td>
<td>-2.5</td>
<td>1.6</td>
<td>3.2</td>
<td>3.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>- Equipment investment</strong></td>
<td>% ch. on prev. period</td>
<td>-0.1</td>
<td>0.7</td>
<td>0.8</td>
<td>-0.3</td>
<td>1.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% ch. on prev. year</td>
<td>2.5</td>
<td>3.7</td>
<td>2.5</td>
<td>5.1</td>
<td>6.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>- Construction investment</strong></td>
<td>% ch. on prev. period</td>
<td>0.8</td>
<td>-0.4</td>
<td>1.6</td>
<td>-0.1</td>
<td>1.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% ch. on prev. year</td>
<td>1.9</td>
<td>2.0</td>
<td>2.5</td>
<td>1.8</td>
<td>2.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Change in stocks</strong></td>
<td>Contribution to GDP (pp)</td>
<td>0.0</td>
<td>0.2</td>
<td>0.4</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.3</td>
<td>-0.1</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Labour market</strong></td>
<td>LTA(1)</td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
<td>2016</td>
<td>16Q1</td>
<td>16Q2</td>
<td>16Q3</td>
<td>16Q4</td>
<td>17Q1</td>
</tr>
<tr>
<td><strong>Employment expectations (manufacturing)</strong></td>
<td>Balance</td>
<td>-9.6</td>
<td>-9.3</td>
<td>-4.8</td>
<td>-2.3</td>
<td>-1.2</td>
<td>-3.6</td>
<td>-2.6</td>
<td>-0.9</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>Employment expectations (services)</strong></td>
<td>Balance</td>
<td>5.0</td>
<td>-4.2</td>
<td>1.1</td>
<td>6.3</td>
<td>8.4</td>
<td>7.8</td>
<td>7.1</td>
<td>8.0</td>
<td>10.7</td>
</tr>
<tr>
<td><strong>Employment (000)</strong></td>
<td>% ch. on prev. period</td>
<td>0.3</td>
<td>0.4</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% ch. on prev. year</td>
<td>0.7</td>
<td>-0.6</td>
<td>0.6</td>
<td>1.0</td>
<td>1.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Compensation of employees (per head, nominal)</strong></td>
<td>% ch. on prev. period</td>
<td>0.4</td>
<td>0.1</td>
<td>0.4</td>
<td>0.5</td>
<td>0.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% ch. on prev. year</td>
<td>1.8</td>
<td>1.5</td>
<td>1.4</td>
<td>1.2</td>
<td>1.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Unemployment rate</strong></td>
<td>% of labour force</td>
<td>12.0</td>
<td>11.6</td>
<td>10.9</td>
<td>10.5</td>
<td>10.3</td>
<td>10.2</td>
<td>9.9</td>
<td>9.7</td>
<td>9.4</td>
</tr>
<tr>
<td><strong>Unemployment (000)</strong></td>
<td>ch. on prev. period</td>
<td>1,022</td>
<td>-589</td>
<td>-1,194</td>
<td>-1,219</td>
<td>-275</td>
<td>-144</td>
<td>-379</td>
<td>-336</td>
<td>-373</td>
</tr>
<tr>
<td><strong>International transactions</strong></td>
<td>LTA(1)</td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
<td>2016</td>
<td>16Q1</td>
<td>16Q2</td>
<td>16Q3</td>
<td>16Q4</td>
<td>17Q1</td>
</tr>
<tr>
<td><strong>World trade</strong></td>
<td>% ch. on prev. period</td>
<td>0.5</td>
<td>0.0</td>
<td>0.8</td>
<td>1.7</td>
<td>1.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% ch. on prev. year</td>
<td>2.3</td>
<td>2.7</td>
<td>2.0</td>
<td>1.4</td>
<td>1.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Trade balance</strong></td>
<td>Billion EUR</td>
<td>155.4</td>
<td>184.4</td>
<td>238.2</td>
<td>266.8</td>
<td>65.1</td>
<td>71.4</td>
<td>65.6</td>
<td>64.4</td>
<td>55.8</td>
</tr>
<tr>
<td><strong>Exports of goods and services</strong></td>
<td>% ch. on prev. period</td>
<td>0.4</td>
<td>1.2</td>
<td>0.4</td>
<td>1.7</td>
<td>1.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% ch. on prev. year</td>
<td>4.9</td>
<td>2.1</td>
<td>4.4</td>
<td>6.2</td>
<td>3.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Imports of goods and services</strong></td>
<td>% ch. on prev. period</td>
<td>0.0</td>
<td>1.6</td>
<td>0.3</td>
<td>3.8</td>
<td>1.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% ch. on prev. year</td>
<td>4.7</td>
<td>1.4</td>
<td>4.9</td>
<td>6.3</td>
<td>4.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Prices</strong></td>
<td>LTA(1)</td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
<td>2016</td>
<td>16Q1</td>
<td>16Q2</td>
<td>16Q3</td>
<td>16Q4</td>
<td>17Q1</td>
</tr>
<tr>
<td><strong>Headline inflation (HICP)</strong></td>
<td>% ch. on prev. year</td>
<td>1.1</td>
<td>0.4</td>
<td>0.0</td>
<td>0.2</td>
<td>0.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Core inflation</strong></td>
<td>% ch. on prev. year</td>
<td>1.2</td>
<td>0.9</td>
<td>0.8</td>
<td>0.8</td>
<td>0.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Monetary and financial indicators</strong></td>
<td>LTA(1)</td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
<td>2016</td>
<td>16Q1</td>
<td>16Q2</td>
<td>16Q3</td>
<td>16Q4</td>
<td>17Q1</td>
</tr>
<tr>
<td><strong>Nominal interest rates (3-month)</strong></td>
<td>Level</td>
<td>0.2</td>
<td>0.2</td>
<td>0.0</td>
<td>-0.3</td>
<td>-0.2</td>
<td>-0.3</td>
<td>-0.3</td>
<td>-0.3</td>
<td>-0.3</td>
</tr>
<tr>
<td><strong>Nominal interest rates (10-year)</strong></td>
<td>Level</td>
<td>2.0</td>
<td>1.4</td>
<td>0.6</td>
<td>0.1</td>
<td>0.3</td>
<td>0.1</td>
<td>-0.1</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>ECB repo rate</strong></td>
<td>Level</td>
<td>0.6</td>
<td>0.2</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Bilateral exchange rate EUR/USD</strong></td>
<td>Level</td>
<td>1.33</td>
<td>1.33</td>
<td>1.11</td>
<td>1.11</td>
<td>1.10</td>
<td>1.13</td>
<td>1.12</td>
<td>1.08</td>
<td>1.06</td>
</tr>
<tr>
<td></td>
<td>% ch. on prev. period</td>
<td>0.6</td>
<td>2.5</td>
<td>-1.1</td>
<td>-3.4</td>
<td>-1.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Nominal effective exchange rate</strong></td>
<td>% ch. on prev. period</td>
<td>1.8</td>
<td>0.8</td>
<td>0.3</td>
<td>-0.3</td>
<td>-0.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Commission, ECB, Central Planning Bureau.

(1) LTA = Long-term average
自动财政稳定器：财政政策的特征，它们会自动地影响经济周期，并降低其波动性。作为结果，预算赤字在GDP中的比例通常会提高，特别是在高增长和经济衰退期。

变动性财政政策：预算平衡中变动性因素所占的比例。它通常被当作是残余部分，因为它们未受到政府控制。它被用来估算预算赤字的变化，以及自动稳定器和利息支付的影响已经被排除（见财政政策）。

财政政策：在预算平衡中变动性因素的总和，以及财政政策的控制。它通常被用来估算预算赤字的变化，以及自动稳定器和利息支付的影响。财政政策包括对共同冲击的变动性和国家自动财政稳定器（特定冲击）。

中期预算目标（MTO）：根据《稳定与增长协定》（Stability and Growth Pact），财政计划和 convergence programme所呈现的中期目标。它是特定的目标，要考虑到经济和预算发展，以及财政风险对公共财政的可持续性的影响，以及在结构性预算平衡中定义的结构化。

输出缺口：在任何特定的时间点，实际产量和潜在产量之间的差额。经济周期通常包括一个正面的输出缺口和一个负面的输出缺口。当输出缺口被关闭时，经济就在预算平衡之后，预算的变动性影响自动稳定器和利息支付被排除（见财政政策）。

潜在GDP：在一定年份，实际GDP保持与稳定通胀率相一致的稳定的GDP增长率。如果实际GDP增加超过其潜在水平，可以导致通货膨胀压力的产生；如果实际GDP低于潜在水平，资源会闲置，通货膨胀压力会消退。（见生产函数方法和输出缺口）。

生产函数方法：一种估计一个经济的可持续产出水平的方法，该产出水平基于可利用的劳动投入，资本存量，以及它们的效率。潜在产出被用来估算输出缺口，即在结构性预算平衡中估计的一个关键输入。

S0指标：由European Commission发布的综合指标，用于评估财政政策在长期内的可持续性，以及财政和竞争性变量的证明性能。该方法用于构建指标。

S1指标：中期可持续性指标，由European Commission发布。该指标表示在结构性预算平衡中，财政政策的变动性，要求在五年内将一般政府债务-GDP比率降低到60%。这种情况在15年的时期内，需要融资，以应对任何未来的额外支出，来自于一个老龄化的社会。

S2指标：长期可持续性指标，由European Commission发布。该指标表示在结构性预算平衡中，财政政策的变动性，要求在无限期内将债务-GDP比率降低到60%。这种情况需要额外调整，以应对老龄化的社会。

稳定化：经济政策干预，使实际产出更接近潜在产出。在经济和货币联盟（EMU），这种结果应被实现，在正常经济时期，以及通过ECB的货币政策（对共同冲击）和国家自动财政稳定器（特定冲击）。当这种情况不满足时，财政政策变动性也可以发挥角色。

结构性平衡：实际预算平衡，对经济周期的影响和基于一次的和临时的措施。结构性预算平衡是衡量预期的经济缺口。

结构性预算平衡：结构性平衡的净利息支付。

财政稳定风险：政府为服务其债务的能力。从一个纯粹理论的角度来看，这基本上是假设，即政府债务水平不会以利率增长。虽然具有概念上的直观性，但对可持续性的定义已经很难实现。欧洲委员会使用三种可持续性的指标，具有不同的时间跨度（S0，S1和S2），这些指标被补充了债务可持续性分析，包括对政府债务项目的敏感性测试和不同情景。

零下限（ZLB）：当短期名义利率在零或接近零时，中央银行在其能力范围内刺激经济增长，通过降低政策利率进一步。要克服由ZLB所设置的限制，使用ZLB的替代方法，刺激需求，通常被认为是，如资产购买计划。ZLB的主要原因是ZLB中所发行的纸币，有效地保证了零名义利率，使市场能够以实际利率为利率基础。中央银行不能鼓励以降低利率的方式减少支出，因为人们将持有现金，而不是减少支出。