Overview

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European Fiscal Monitor: January 2019

This edition of the European Fiscal Monitor features entries for 21 EU economies produced by the national IFIs.

Economic conditions are generally seen as positive across the EU by IFIs, although the business cycle is thought to have peaked already. Several IFIs envisage a deceleration in economic growth next year driven primarily by weaker foreign demand. A number of IFIs point at signs of overheating such as rapid wage growth outpacing growth in productivity, reports of staff shortages or buoyant property markets.

Several IFIs warn of the consequences of looming global problems and the rise of **protectionism**. Some IFIs see risks in **within-EU country-specific developments** such as the impending exiting of the United Kingdom from the EU as well as political developments in Italy and France. Domestic and nation-specific issues feature also among the concerns of IFIs: high private debt and non-performing loans in Cyprus, and the high degree of sectoral specialization and risk of changes in the international tax environment in Ireland.

Many EU budgetary watchdogs are critical of the lack of counter-cyclicality in the fiscal stance of their countries. Good times are not used to build sufficient fiscal buffers (Ireland) or to implement structural reforms even though some countries still face the perennial challenges related to ageing (Austria, Czech Republic). On the contrary, some governments have used the benign economic conditions to implement measures that ultimately worsen the underlying budgetary position of the state (Ireland, Latvia, Lithuania).

Nevertheless, most countries are evaluated to be compliant with numerical rules and targets. This is not the case in Italy and France in particular. In Italy, the structural deficit is set to deteriorate in 2019 and improve only slightly in the years after following inadequate adjustment in 2018. Moreover, Italy is set to violate the numerical rule for public debt. In France, an improvement in the structural balance is no longer forecast following the emergency measures introduced in response to the "yellow vests" movement. A temporary violation of the 3-percent deficit-to-GDP threshold is also expected due to a one-off measure. In Spain, the IFI warns that the country is not on track to hit its long-term debt target. The Greek IFI warns of political risks and the risk of contingent liabilities materializing as a threat to an otherwise achievable outlook defined by the enhanced surveillance framework.

Several IFIs have repeatedly highlighted the lack of effective medium-term budgetary frameworks to enhance compliance with fiscal rules, promote long-term sustainability and counter-cyclicality in public finances (Ireland, Spain, Slovakia, Slovenia).