7. The ECB, Eurostat and the OECD actively cooperate on statistics and research concerning the joint distribution of income, consumptions and wealth (ICW) as well as linking macro and micro data on household wealth. Two meetings of the *OECD/Eurostat Expert Group on Disparities in National Accounts* took place in 2018. A new data compilation round has started and progress was achieved towards the publication of the methodological manual. The *ECB Expert Group Linking Macro and Micro Data* concentrates on household wealth, taking advantage of the Household Finance and Consumption Survey, which is aimed to be bridged to National Accounts.

8. Technical work by Eurostat is also ongoing towards modernizing and harmonizing public sector accounting in the context of the European Public Sector Accounting Standards (EPSAS). In May 2018, Eurostat presented the draft EPSAS Conceptual Framework to the EPSAS Working Group. Technical work underway covers key public sector accounting issues from the EPSAS perspective, such as the accounting treatment of discount rates and grants. The collection of information for impact considerations continued in 2018 and is at an advanced stage.

Statement by Anthony De Lannoy, Executive Director
for the Dutch-Belgian Constituency
on behalf of the Euro Area Authorities
July 8, 2019

In my capacity as President of EURIMF, I submit this Buff statement on the Article IV consultation with the euro area. It reflects the common view of the Member States of the euro area and the relevant European Union Institutions in their fields of competence.

The authorities of the euro area Member States and the EU Institutions are grateful for the open and fruitful consultations with staff and their constructive policy advice. The authorities are in broad agreement with the findings and recommendations in the Article IV Staff Report, notably the concerns expressed about the downside risks to the outlook. We also welcome the acknowledgement of recent reforms to the euro area architecture, while noting the call for more progress in certain key areas.

More specifically, we have the following comments on the Fund Staff Report:

Economic outlook

The authorities share the Fund staff's baseline forecast of strengthening economic growth and continued job creation in the short term, as well as their assessment of risks. The main impulse for growth will come from domestic demand, supported by increasing real income and accommodative policies, though the strengthening may be felt slightly later than expected in spring. We note that the reference to a “sharp slowdown” starting in 2018 are somewhat exaggerated. Net exports will contribute only marginally to growth in 2019, as global trade growth is projected to bottom out this year but remains weak amid continued trade policy uncertainty. The EU institutions' real GDP growth forecasts for 2020 are closely aligned with those of the IMF. We also agree with the staff assessment that risks are skewed to the downside. The main risks are a further escalation of trade disputes, a possible no-deal Brexit and renewed uncertainty about policy developments in certain high-debt Member States. Moreover, the situation would be particularly challenging if these risks were to materialize simultaneously. Still, the euro area would be shielded from the worst impacts of such developments by its strengthened institutional framework. Moreover, reform momentum at the euro area and national level and the commitment to sound policies can bolster confidence. On Brexit, the authorities note that a ‘no deal’ Brexit would dampen economic growth mainly in the U.K. The impact on EU27 overall appears to be much more contained but differentiated, with some individual euro area members significantly affected.

Our assessments of the medium-term outlook are also aligned. Demographic developments, weak productivity growth and the legacy of the crisis in some Member States are weighing on potential growth. That is why we support the conduct of prudent fiscal policies, in full respect of the SGP, that prioritize public and private investment, and improve the quality of public expenditure and revenues. Stepping up the implementation of structural reforms and making progress towards strengthening the Economic and Monetary Union, across all its dimensions, will also be important to enhance private investment and productivity and to reduce vulnerabilities.

Monetary policy and inflation outlook

Underlying inflation remains generally muted. It is expected to increase only gradually over the medium term. Further employment gains and increasing wages continue to underpin the resilience of the euro area economy and should remain supportive to gradually rising inflation.

The ECB's accommodative monetary policy stance—including the June's Governing Council expectation that key ECB interest rates will remain at their present levels at least through the first half of 2020, the continued reinvestments, and the new series of TLTROs—ensures that financial conditions will remain very favourable, supporting the euro area expansion, the gradual buildup of domestic price pressures and, thus, headline inflation developments over the medium term.

Looking ahead, the Governing Council is determined to act if contingencies warrant it. It stands ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its inflation aim in a sustained manner.

Fiscal policies

The authorities agree with the Fund's staff that national fiscal policies need to be better differentiated. Member States with high public debts need to rebuild fiscal buffers by pursuing fiscal adjustment, in a growth-friendly manner, in line with the EU's fiscal rules. Countries should support achievement of these objectives with policies to strengthen economic growth potential. Conversely, Member States with fiscal space and low levels of investment could prioritise investments to boost potential growth, as advised in the IMF Staff Report, while preserving long-term sustainability.

Temporary adjustment of fiscal balances in a downturn, as advocated by staff, is allowed under the SGP in case of a severe downturn, provided that fiscal sustainability is not endangered. In such an event, discretionary easing would have to be tailored to country-specific macro-economic, fiscal, and financing conditions. Moreover, it would also need to take into account a number of challenges. It is difficult to detect a severe downturn in real time and there are lags affecting policy diagnosis. Policy reaction, including enacting fiscal measures, may be too slow, particularly if contingency planning is insufficient. Improving the quality of public finances both on the revenue and expenditure sides is important to create the necessary space for both consolidation and more spending in growth-enhancing areas.

On the enforcement of fiscal rules, the authorities would like to note that in general the SGP has contributed to the pursuit of sound public finances. It is important to note that public finances in the euro area as a whole compare very favourably to those in other jurisdictions, which can be attributed partly to the fiscal framework in place. As regards the adequacy of the rules, the forthcoming review of the fiscal framework will provide a basis for a thorough assessment.

Structural reforms

We concur with the staff recommendation to accelerate structural reforms at the national level and to continue deepening the Single Market. The Staff's findings on the impact of national structural reforms on resilience are similar to those produced by EU Institutions. Beyond product and labour market regulations and insolvency regimes stressed in the Staff Report, reforms in the areas of business climate, public administration, education, and in relation to the digital economy and climate change would also be relevant. We note the need to strengthen reform implementation at national level, notably in services, tax-base broadening, and improving the regulatory framework, while highlighting the need to carefully sequence reform implementation over the business cycle and mitigate exclusion and inequality impacts in order to avoid reform fatigue and reversal. We expect the dialogue on reforms under the European Semester process to be further enhanced by the newly created National Productivity Boards. Furthermore, there could be synergies between the reforms to deepen the Single Market for Services described by staff, and further action at EU level, e.g., in network industries.

External sector policies

The authorities take note of the staff's assessment of the euro area's external position. The Fund's staff notes that the euro area current account surplus has narrowed and that the euro area's real effective exchange rate has appreciated by 3 percent on average in 2018. While the Fund still assesses that it is marginally undervalued, the text of the report should remain fully consistent with past exercises and stress that the euro's valuation remains well within the interval of +/- 5 percent considered as broadly in line with fundamentals according to the Fund's External Balance Assessment framework. In any case, the EU institutions consider the euro's real effective exchange rate to be close to its equilibrium.

The staff report could mention that the external surplus is trending downward, and not only due to weaker external demand. We project the euro area current account surplus will continue to narrow going forward also due to robust domestic demand in large-surplus countries reflecting both the ongoing fiscal expansion and higher relative wages which could help reduce high corporate savings. Overall, the main external sector policy levers are at national level. Member States—both net creditors and net debtors—need to continue to take steps to reduce those excessive imbalances that are driven by domestic policy. Further integrating financial markets and the broader EU single market, in the context of deepening of the Economic and Monetary Union, could also help to reduce imbalances among Member States.

The authorities welcome staff's acknowledgment that the EU is taking a proactive role in safeguarding the economic gains from trade liberalization. The European Union continues to support free trade within an open, rules-based multilateral system with a modernized WTO at its core and remains committed to resisting all forms of protectionism and distortions.

Financial sector policies

We recall the progress made in bank capitalisation and risk reduction, including tackling NPLs. **However, we acknowledge the need for further reducing high NPL ratios in some Member States**. As regards the structural factors driving the low profitability of the banking sector, we are assessing their implications for supervisory policies. As mentioned in the staff report, weak profitability reflects structural problems that differ across countries and banks. For this reason, projections of banks' profitability and assessments of the viability of their business models are taken into account in the supervisory review and evaluation process under Pillar 2. In this context, consolidation in the banking sector is also relevant.

We are also proactively monitoring potential financial stability risks. Emerging risks in the real estate sector are closely monitored and may call for greater use of macro-prudential and borrower-based tools by national supervisors in certain Member States. Authorities have made good progress in addressing the potential cliff-edge risks to financial stability resulting from a hard Brexit by taking action where necessary (for example, in the area of market infrastructures), and the private sector has also made some progress to mitigate risks. We continue to communicate the importance of further private sector action, both publicly and directly to supervised firms. There is still a risk financial markets have not yet fully priced-in the possibility of a no-deal Brexit, which may lead to abrupt adjustments to risk premia in the event of such an outcome. We fully take on board the Fund staff recommendations to address money laundering more systematically and are taking steps in this direction, while noting that the establishment of an EU-wide agency for supervision could be a medium-term solution.

Advancing the Economic and Monetary Union (EMU)

As mentioned in the Staff Report, there has been further progress in the EMU deepening agenda. The Euro Summit of 21st June welcomed the progress on the strengthening of the EMU and invited the Eurogroup in inclusive format to continue working on all the elements of a comprehensive package. It also took note of the broad agreement reached by the Eurogroup on the revision of the European Stability Mechanism (ESM) Treaty and on a budgetary instrument for convergence and competitiveness (BICC) for the euro area and ERM II Member States on a voluntary basis. The ESM will provide the common backstop to the Single Resolution Fund (SRF) and its toolkit will be updated. Work will continue until December to finalise related legal documentation. On the BICC, the