

EUROPEAN ECONOMICS UPDATE

1st Feb. 2016



Euro-zone Fiscal Monitor (Jan.)

Further fiscal progress in 2015 with Ireland leading the pack

- The latest fiscal data suggest that the euro-zone's peripheral economies generally improved their budgetary positions last year. But, with the exception of Ireland, their public debt is not yet falling as a share of GDP.
- Q3's euro-zone fiscal data show that the budget deficit of the region as a whole continued to inch down. In the first three quarters of 2015, the deficit was 1.8% of GDP on a seasonally-adjusted basis, slightly smaller than the 2.2% recorded in the previous quarter and the 2.7% seen in the same period of 2014. (See Chart 1.) Meanwhile, the stock of government debt fell from 92.3% of GDP in Q2 to 91.6%.
- These Eurostat data, which form the basis of the European Commission's fiscal targets and are on an accruals basis, indicate that most of the peripheral economies made progress in Q3 compared to the same period in 2014. Only Greece saw its headline deficit increase, from 1.0% of GDP to 1.3%. But only Ireland and Italy saw drops in their debt-to-GDP ratios. (See Chart 2.)
- Central government budget deficit figures, which are a timelier but less comprehensive measure of a country's fiscal position, indicate that the peripheral countries made fiscal progress in 2015 as a whole. Note that Spain has not yet published data for December. (See Chart 3.) While efforts to contain state spending have been mixed, revenues rose, albeit by a tiny amount in Greece (See Charts 4 & 5.)
- Indeed, Ireland made a substantial improvement in its fiscal position in 2015, boosted by the strength of its economic recovery. As Chart 6 shows, it ran a broadly balanced state budget last year, the Exchequer's best performance since 2006 and easily beating the target of a deficit of 2.7% of GDP. The 16% y/y jump in cumulative revenue was broad-based. (See Chart 7.) Although a general election will be held this spring, we do not expect this to alter the fiscal consolidation path substantially.
- Portugal also exceeded its own expectations, running a state budget deficit of 3.1% of GDP in 2015, an improvement on 2014's 4.1% and the Government's target of 3.7%. (See Chart 8.) The new left-wing coalition Government plans to improve the country's fiscal position further. It is aiming for a general government deficit of 2.6% of GDP this year, smaller than 2015's anticipated 4.2%. But in contrast to Ireland, the risks of fiscal slippage are high given plans to reverse public sector wage cuts and the Government's optimistic nominal GDP growth forecasts.
- Italy fared less well. Its state budget deficit was 3.7% of GDP in 2015 and while this was an improvement on 2014's 4.8%, it was larger than the Government's planned 2.7%. (See Chart 9.) We do not have full-year spending and revenue data for Italy yet, but figures up to November suggest that a failure to contain spending was behind the poorer fiscal performance.
- Finally, Greece also failed to meet its 2015 targets. Both its headline and primary budget balances were poorer than expected as recently as last autumn, albeit better than they had been in 2014. (See Chart 10.) Although spending was lower than projected, there was an even larger revenue shortfall. This was primarily reflected the fact that the ECB and euro-zone national central bank suspended the return of any profits they had made on their holdings of Greek bonds following the expiry of the extension of the second bailout in June. A resumption has not yet been agreed.

Jessica Hinds European Economist (+44 (0)20 7808 4052, jessica.hinds@capitaleconomics.com)

Chart 1: Euro-zone Cum. Gen'l Gov Budget Bal. (% of GDP)

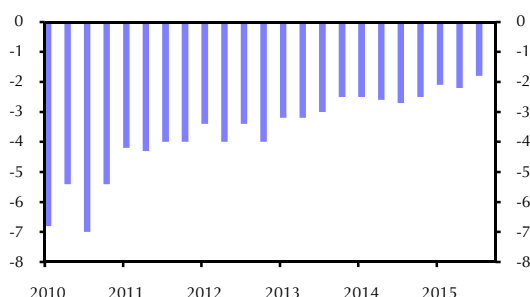


Chart 2: Public Debt (% of GDP)

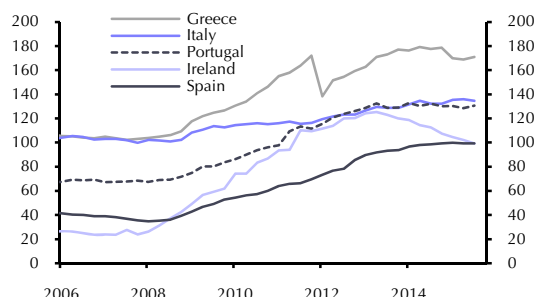


Chart 3: Central Government Budget Balance (% of GDP, Jan-Dec)

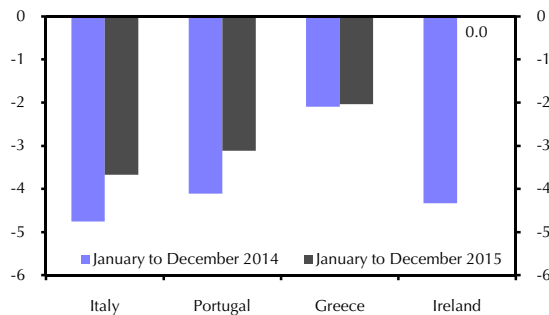


Chart 4: Central Government Spending (%y/y, Jan-Dec)

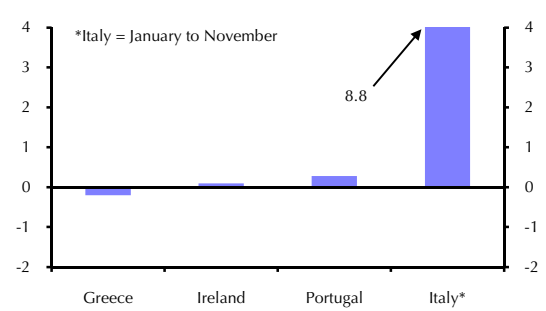


Chart 5: Central Government Revenue (%y/y, Jan-Dec)

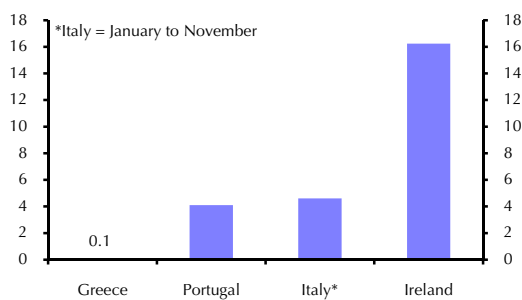


Chart 6: Ireland State Budget Deficit (% of GDP)

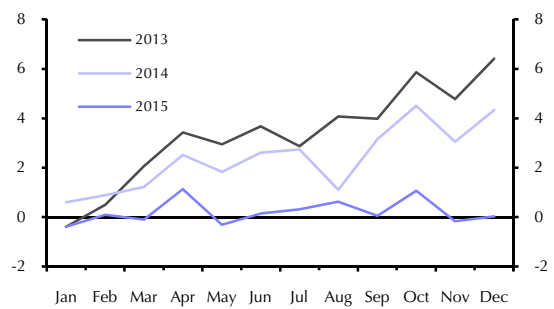


Chart 7: Ireland Revenue Breakdown (%y/y, Jan-Dec)

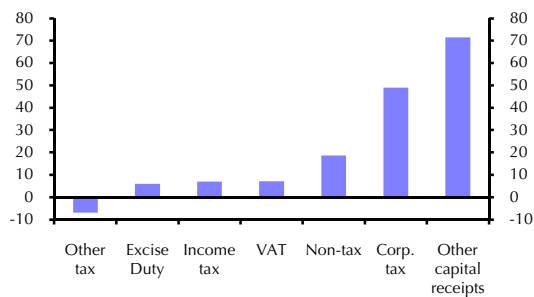


Chart 8: Portugal State Budget Deficit (% of GDP)

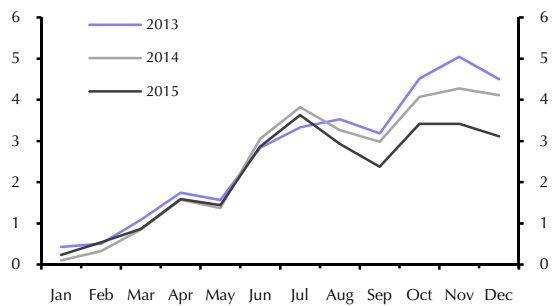


Chart 9: Italy State Budget Deficit (% of GDP)

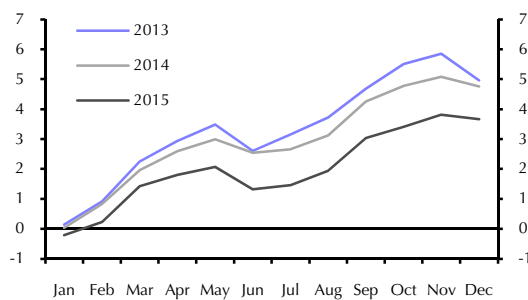


Chart 10: Greek State Budget Balance (€bn)

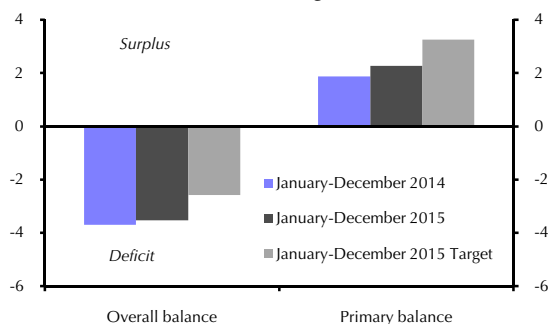


TABLE 1: EURO-ZONE FISCAL SUSTAINABILITY HEAT MAP

	General Government Budget Balance (2014, % of GDP)		Government debt (2014, % of GDP)		Gov't debt held abroad (Q3 2015 % of total gov't debt)	Total external debt (Q3 2015, % of GDP)	Ave. debt maturity (years)	Debt maturing in 2016 & 2017 (% of GDP)	Long-term Sovereign Credit rating (S&P)
	Overall	Primary	Gross	Net					
Greece	-3.5	+0.4	179	175	85	254	25.31	18.0	B-
Portugal	-4.5	+0.5	130	120	73	233	11.80	20.0	BB+
Ireland	-4.1	-0.1	108	88	66	249	14.35	10.4	A+
Spain	-5.8	-2.5	99	63	52	176	6.62	29.4	BBB+
Italy	-3.0	+1.6	132	113	40	131	6.41	35.3	BBB-
Belgium	-3.2	-0.2	107	65	64	274	7.93	22.6	AA
France	-4.0	-1.8	96	88	66	222	6.98	21.3	AA
Netherlands	-2.3	-0.8	68	33	55	564	7.04	13.6	AAA
Germany	+0.7	+2.4	75	51	61	159	6.60	11.6	AAA
Austria	-2.4	0.0	84	48	85	185	7.69	11.6	AA+
Finland	-3.2	-1.9	59	-50	87	232	5.76	13.5	AA+
Criteria									
Red	< -8	< -5	>80	>80	>60	>200	<6	>30	<A+
Amber	-3 to -8	-1 to -5	60-80	50-80	50-60	170-200	6-7	30-20	AA+ to A+
Green	> -3	> -1	<60	<50	<50	<170	>7	<20	>AA+

Sources – Thomson Datastream, Bloomberg, OECD, Capital Economics

KEY FORTHCOMING EVENTS/DATA

Date	Country	Event
3 rd Feb.		Gre Greece to sell 182-day bills
4 th Feb.		Spa Government bond auction
5 th Feb.		Aus Fitch to publish sovereign debt rating
5 th Feb.		Fin Moody's to publish sovereign debt rating
5 th Feb.		Ire Fitch to publish sovereign debt rating
5 th Feb.		Por Government to submit 2016 Budget to Parliament
11 th Feb.		EZ Eurogroup meeting
11 th Feb.		Ita Government bond auction
11 th Feb.		Ire Government bond auction
12 th Feb.		Ita Moody's to publish sovereign debt rating
19 th Feb.		Spa Moody's to publish sovereign debt rating
24 th Feb.		Ita Government bond auction
24 th Feb.		Ger Government bond auction
26 th Feb.		Aus Moody's to publish sovereign debt rating
26 th Feb.		Ger Moody's to publish sovereign debt rating
26 th Feb.		Gre Moody's to publish sovereign debt rating
26 th Feb.		Lux Moody's to publish sovereign debt rating
26 th Feb.		Ita Government bond auction
29 th Feb.		Cyp Cyprus to sell bills