

Brussels, 9 July 2007

Preparation of Eurogroup and Economic and Finance Ministers Council, Brussels, 9 and 10 July 2007

EUROGROUP (AT)

Eurogroup ministers will meet at 18:00 hrs on Monday 9 July. Joaquín Almunia, Commissioner responsible for Economic and Monetary Affairs will attend as will European Central Bank Governor Jean-Claude Trichet. President Nicolas Sarkozy will also participate. A press conference is expected to take place after the meeting.

Ministers will discuss the Commission's recent recommendation for a Council Opinion on the updated stability programme of euro zone member Austria. The Commission at the end of May concluded that Austria could be more ambitious and achieve its objective of a balanced budget more quickly than currently envisaged. According to the Austrian Stability Programme and Commission spring forecasts, Vienna will have a budget deficit of 0.9% this year from 1.1% in 2006. It aims to reach balance in 2010. (see [IP/07/716](#)).

Ministers will then have an exchange of views on how to improve the effectiveness of the preventive arm of the Stability and Growth Pact in light of the Commission Communication 'Ensuring the effectiveness of the preventive arm of the Stability and Growth Pact' adopted on 13 June 2007 and the Commission report "Public Finances in EMU 2007" released on the same date (see below – Ecofin Council part).

Eurogroup ministers will also discuss the budgetary policies and plans of France and Ireland following the recent elections and ahead of the preparation of the national budgets for 2008. The Eurogroup started this exercise, known as the Mid-Term Budgetary Review (see [MEMO/07/140](#)), in Berlin, in April, when it also adopted general orientations for fiscal policy in 2007 and 2008, including a commitment to take advantage of the favourable cyclical conditions and aim at achieving the medium-term budgetary objectives (MTOs) set in the Stability Programmes by 2010 at the latest. Member States at MTO are expected to maintain their strong structural budgetary position so as to avoid fiscal loosening in good times. The annual budgetary discussions at Eurogroup, which have already focused on the 11 other euro area members at the April and June sessions, are key for strengthening the coordination of fiscal policies in the euro area and ensuring the appropriate policy mix for the zone as well as for speedy progress towards sustainable public finances.

For full text of the April 20 general orientations go to:

www.gouvernement.lu/salle_presse/actualite/2007/04/20pm_krecke_berlin/MTBR_EG_conclusions-finalCLEAN.rtf .

ECOFIN COUNCIL

The Council of Economy and Finance Ministers will start at 10.00 hrs on Tuesday 10 July). The European Commission will be represented by Economic and Monetary Affairs Commissioner Joaquín Almunia. A press conference is expected to take place after the meeting.

Economic situation and outlook (AT)

Ministers will discuss the economic situation and outlook over breakfast. The outlook has brightened substantially since 2006 and the economy has moved with significant speed into 2007. Business and consumer survey indicators remain at very high levels. The labour market also continues to improve, with unemployment at 7% in May in both the EU and the euro area, the lowest level since the start, in 1993, of the present unemployment series. Together with robust employment growth, this gives further support to the broadening of the economic recovery in favour of domestic demand. Labour productivity is accelerating and there is some evidence that trend labour productivity is also picking up. Wage growth has also remained relatively moderate, limiting the risks for upward price pressures from labour costs, at least for the near-term.

However, prospects for growth and inflation may be somewhat less positive in the longer run due to risks in the international environment. These include the possibility of more sluggish growth in the US, potentially high and volatile oil prices, the risk for a disorderly unwinding of global imbalances and heightened financial market uncertainty. (For more information on current economic outlook see the second edition of the Quarterly Report on the Euro Area, issued on July 3rd)

International Monetary Fund

Ministers will also have an exchange of views, ahead of the October general assembly of the International Monetary Fund, on the replacement of the IMF Managing Director and the reform of the Fund's voting quotas towards a new formula that better represents the relative weight of the its members. The latter discussion takes place in the context of the comprehensive reform package on IMF governance agreed by the members of the IMF in September 2006 in Singapore.

Portuguese Presidency Work Programme

Ministers will have a debate following the presentation of the work programme of the Portuguese presidency for the second half of 2007. This point will be shown live on closed-circuit television.

Implementation of the Stability and Growth Pact (AT)

- *Assessment of stability and convergence programmes*

The Council is expected to give its opinion on the updated stability programme of Austria and convergence programme of the Czech Republic on the basis of recommendations put forward by the Commission on 30 May (see [IP/07/716](#) and [IP/07/717](#)). Moreover, the Ecofin Council is expected to conclude, based on a recommendation by the Commission under Article 104(8) of the EU Treaty, that the action taken by the Czech Republic in response to the Council recommendation of 5 July 2004 is proving inadequate to correct the excessive deficit by 2008.

The opinions on the two programmes conclude the 2006/07 assessment round of stability and convergence programmes.

- *Application of the ongoing Excessive Deficit Procedure (Hungary)*

EU Finance Ministers will discuss how Hungary responded to the third Council recommendations of October 2006 based on Article 104(7) of the Treaty. Ministers are expected to agree with the Commission that Hungary so far has taken effective action to correct its excessive deficit by 2009 and, therefore, that it does not appear necessary to take any further steps under the excessive deficit procedure at present (see [IP/07/812](#)). Hungary outperformed its revised deficit target for 2006 by almost 1% percentage point of GDP, although the deficit was still very high at 9.2% of GDP. Against this background, the overachievement of the 2007 headline deficit target of 6.8% of GDP is deemed to be possible and desirable. Hungary has implemented various structural reform steps in the areas of public administration, health care, education and pensions and has taken initial steps to enhance the budgetary framework. However, Commissioner Almunia is expected to underline that the correction of the excessive deficit by the 2009 deadline would still require sustained consolidation efforts, the full implementation of the structural reform plans as well as the reinforcement of the budgetary framework.

Adoption of the euro in Cyprus and Malta (AT)

Ministers will fix the rates at which the Cyprus pound and the Maltese lira will be converted into the euro on the 1st of January 2008 and will adopt the necessary legal package related to the introduction of the euro in the two countries, which became members of the European Union in 2004. This is based on Commission proposals.

The European Parliament has given a favourable opinion on the adoption of the euro in Cyprus and Malta and the Heads of State or Government supported the proposals at the European Council of 21-22 June.

For information on the Commission's Convergence Reports of 16 May 2007 concluding that the two countries met the qualifying criteria for adopting the euro see press releases [IP/07/673](#), [IP/07/674](#) and [MEMO/07/193](#)).

Public finances in EMU 2007 (AT)

Ministers will discuss ways to improve the effectiveness of the preventive arm of the Stability and Growth Pact in light of the Commission Communication 'Ensuring the effectiveness of the preventive arm of the Stability and Growth Pact' adopted on 13 June 2007 and the Commission report "Public Finances in EMU 2007" released on the same date (see [IP/07/811](#)).

The Communication reviews recent budgetary developments in the EU and the functioning of the EU fiscal framework. It underlines the smooth implementation of the excessive deficit procedures in the recent period but also notes some deviations from the policy rules of the preventive part of the Stability and Growth Pact. Now that most EU countries have just corrected or are about to correct their excessive deficit, the challenge is to use the opportunity offered by the current favourable cyclical conditions to move swiftly towards the permanently sound levels set in their Medium-term Objectives.

The preventive arm of the Pact is designed to avoid excessive deficits through sound medium-term budgetary planning and delivery. The Communication formulates concrete proposals to this end, on the basis of best practice. These proposals are fully in line with the spirit of the political agreement of the 2005 SGP reform, and can all be applied under the current legislation. They aim in particular to strengthen the credibility and national ownership of the medium-term budgetary targets included in the Stability and Convergence Programmes.

Governance and funding of the International Accounting Standards Board (IASB) and International Accounting Standards Committee Foundation (IASCF) (OD)

Following the Commission's second interim report and discussions within the Economic and Financial Committee, the Ministers will be invited to adopt Council conclusions on the governance and funding of the International Accounting Standards Board (IASB) and of the International Accounting Standards Committee Foundation (IASCF).