Council of the
European Union

Brussels, 16 January 2017
(OR. en)

5188/17

ECOFIN 11
UEM 6
SOC 7
EMPL 4
COMPET 10
ENV 20
EDUC 5
RECH 6
ENER 5
JAI 17

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee (part 2)/Council
Subject:	European Semester 2017 - Annual Growth Survey: Macroeconomic and fiscal guidance to Member States – Draft ECOFIN Council conclusions

Delegations will find attached the draft Council conclusions on the Annual Growth Survey prepared by the Economic and Financial Committee.

<u>2017 EUROPEAN SEMESTER:</u>

<u>MACROECONOMIC AND FISCAL GUIDANCE TO MEMBER STATES</u>

– Draft ECOFIN Council conclusions –

The Council (ECOFIN):

I. THE 2017 EUROPEAN SEMESTER

1. WELCOMES the Commission's Annual Growth Survey 2017, which sets out broad policy priorities for jobs and growth in the EU and its Member States, and marks the starting point of the 2017 European semester.

2. BROADLY SHARES the Commission's analysis of the economic situation and policy challenges in the EU. Structural and fiscal policies need to contribute to consolidating the recovery and take advantage of the current situation to tackle macroeconomic imbalances and to implement ambitious reforms and pursue responsible fiscal policies. Despite recent improvements, the global economic outlook is becoming more uncertain. Economic performance, as well as reform implementation, remains uneven across the EU. Even though employment is expected to grow many economies still face far-reaching structural challenges, including in the labour market. Although declining, still high private and public debt levels contribute to holding back investment. As confirmed by the Commission’s Alert Mechanism Report growth and employment are also constrained by the risk of a number of macroeconomic imbalances.

3. Against this background, AGREES on the broad policy priority areas outlined by the Commission on which national and EU level efforts should concentrate in 2017; Boosting investment, pursuing structural reforms and responsible fiscal policies. These priorities should be implemented in an integrated manner in order to tackle the challenges effectively at both EU and Member State level to ensure inclusive growth and sustainable economic development. STRESSES that too little emphasis is placed on the need for product market reform in this Annual Growth Survey. Product market reforms should be prioritised because of their more direct boost to productivity and output regardless of economic conditions. AGREES with the importance of reforms to increase labour supply and foster equal opportunities on the labour market, such as increased female labour force participation and integrating disadvantaged groups as a way to increase growth potential and social progress. ACKNOWLEDGES that a comprehensive approach is required to integrate migrants and the recent influx of refugees and facilitate their access to the labour market.

4. AGREES with the Commission analysis that the track record on reform implementation needs to be improved and UNDERLINES the importance of monitoring performance and policy implementation, including implementation of the country specific recommendations, throughout the year. INVITES the Economic and Financial Committee and the Economic Policy Committee to actively engage in this work based on Commission input. LOOKS FORWARD to a substantial discussion in council in March 2017 on the implementation of the country specific recommendations based on thorough assessment by the Commission.

5. ENCOURAGES further efficient and open dialogue in the capitals between Member States and the Commission, and an improved involvement of national stakeholders.

II. FISCAL AND MACROECONOMIC POLICY ORIENTATIONS

Re-launching investment

6. RECOGNISES that in the context of low interest rates, ample liquidity in financial markets and deleveraging by public and private actors, investment levels remain low. There is an urgent need to boost investment by improving the overall investment climate in order to strengthen the EU's economic recovery, and to increase productivity and growth potential. RECALLS the December ECOFIN 2016 Council conclusions on tackling bottlenecks to investment identified under the Third Pillar of the Investment Plan, which also underlines the close relation between investment and structural reforms. Member States are urged to tackle national and cross border investment barriers, to strengthen the single market and investment environment in the EU as a whole.

7. Lending conditions are improving but companies continue to face varying financing conditions depending on their location. Many Member States face the challenge of private debt overhang and non-performing loans that impede the functioning of financial intermediation and hold back investment decisions. SHARES the Commission analysis that well-functioning insolvency frameworks are crucial for investment decisions.

8. SUPPORTS the view that the efficiency of national insolvency frameworks has to be further improved in order to contribute to addressing the high level of non-performing loans and AGREES with the development and implementation of an effective strategy, both at a Member State and EU level, to complement prudential supervisory action to address viability risks within the banking sector in some Member States, including as regards the high level of non-performing loans, inefficient business models and overcapacity. STRESSES that such actions should be in line with the existing regulatory framework, notably the Bank Recovery and Resolution Directive.

9. RECALLS that more developed and more integrated capital markets could unlock investment for businesses and infrastructure projects, attract long-term foreign investment, and contribute to growth and job creation. To this end, SUPPORTS advances in the creation of a fully-fledged Capital Markets Union and in the removal of barriers to cross-border investment, as well as diversifying the sources of funding, thus supporting notably the financing of infrastructure and SMEs, and leading, together with measures on the tax side where appropriate, to a more balanced financing structure between equity and debt of EU businesses and further cross-border private risk-sharing.

Pursuing structural reforms to modernise our economies

10. BROADLY SHARES the Commission view that Member States need to invest more in creating supportive conditions for greater labour market participation, and effective training and upskilling. UNDERLINES the importance of product market reforms and the opening up of markets to increase growth potential, productivity and efficiency gains. This can also facilitate the success of labour market reforms. In addition product market reforms can improve the adjustment capacity in the face of shocks, contribute to a re-balancing, lessen the negative side-effects of deleveraging and of globalisation while enhancing their positive effects, and contribute to the prevention of macroeconomic imbalances. STRESSES that the European single market remains the most powerful engine of growth and completing the single market in both goods and services, and further work on the Digital Single Market, the Capital Markets Union and the Energy Union should be the priority.

11. EMPHASISES that social protection systems should be fiscally sustainable. Pension systems have been reformed in a majority of Member States to enhance their sustainability, efficiency and adequacy, but additional steps are needed to consolidate these reform efforts. AGREES with the Commission analysis that the effectiveness of such reforms is aided by flanking policies boosting retirement incomes by extending working lives, and by supporting other complementary means of retirement incomes.

Responsible fiscal policies

12. WELCOMES the progress with fiscal consolidation, but ACKNOWLEDGES that the aggregate picture hides large differences across the Member States and that public finance challenges remain. RECALLS that for the euro area a strong coordination of national fiscal policies, based on common rules, is essential to arrive at an appropriate aggregate fiscal stance and for the proper functioning of the monetary union. NOTES the Commission Communication and analysis of the fiscal stance calling for a positive fiscal stance for the euro area as a whole. RECALLS that the Eurogroup in July concluded, on the basis of Commission analysis, that the broadly neutral aggregate fiscal stance in 2017 strikes an appropriate balance. RECOGNISES the importance in the current juncture to aim for an appropriate balance between the need to ensure sustainability and the need to support investment to strengthen the recovery thereby contributing to an appropriate aggregate fiscal stance and a more balanced policy mix.

13. AGREES that it remains essential for Member States to continue to implement structural reforms to increase potential growth and that Member States' fiscal policy should be supportive to growth while ensuring longer term debt sustainability, including through increased focus on the quality and the composition of budgets towards investment and other expenditure and revenue categories that raise economic growth potential. REAFFIRMS that fiscal policies should be pursued in full respect of the Stability and Growth Pact. SHARES the Commission view that challenges in terms of fiscal sustainability remain in a number of countries where public debt is high, which may be a source of vulnerability to adverse shocks and therefore HIGHLIGHTS the need to secure long-term control over deficit and debt levels to build resilience through prudent fiscal policies in those Member States with high public debt, including by complying with the debt rule. CONCURS that some Member States have outperformed their medium-term objectives and could use their favourable budgetary situation to further strengthen their domestic demand and growth potential, depending on country specific circumstances, while respecting the medium-term objective, the national budgetary prerogatives and national requirements.

14. RECALLS that the SGP allows the automatic stabilizers to work around the agreed path of structural adjustments and provides significant flexibility to adjust fiscal policy to developments in Member States without endangering the overall aim to promote sound and sustainable public finances. STRESSES the importance that requests by Member States for flexibility under the SGP, including for exceptional spending linked to unusual events outside the control of the governments, are considered by the Commission in a consistent manner.