COUNCIL OF
THE EUROPEAN UNION

Brussels, 16 June 2014

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from:	The General Secretariat
to:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2014) 401 final.

COUNCIL RECOMMENDATION

of

on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 136 in conjunction with Article 121(2) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Economic Policy Committee, Whereas:

(1) The current economic environment of the euro area is characterised by a gradual, but still fragile economic recovery. In 2013 and in early 2014, euro area inflation declined markedly and is expected to increase only very gradually over the forecast horizon, reflecting the existing slack together with the ongoing relative price adjustments in the vulnerable economies and the past appreciation of the euro exchange rate. Furthermore, while the recovery is becoming more broad-based, divergences between Member States whose currency is the euro ('euro area Member States') remain high.

(2) The euro area is more than just the sum of its members. The economic and financial crisis clearly exposed the close interrelations in the euro area and underscored the need for stronger coordination of fiscal, financial and structural policies among euro area Member States to ensure a coherent policy stance for the euro area as a whole. The euro area Member States have committed themselves to a set of far-reaching policy reforms and policy coordination by signing the Treaty on Stability, Coordination and Governance (TSCG) in the Economic and Monetary Union on 2 March 2012. The entry into force of the so-called two pack Regulations[1] ("two pack") in 2013 has further deepened budgetary and economic policy coordination within the euro area. Euro area Member States have a specific responsibility for an effective implementation of the new governance framework. This calls for increased peer pressure to support national reform implementation and fiscal prudence, greater assessment of national reforms from a euro area perspective, internalising potential spillovers and stimulating policies of particular importance for a well functioning EMU. This also calls for appropriate communication about the euro area strategy.

[1] Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.5.2013, p. 1); Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, p. 11).

(3) Given the high interdependence between euro area Member States, there are potentially large spillovers related to the implementation of structural reforms which need to be taken into account in order to secure optimal policy design and implementation for euro area Member States individually and for the euro area as a whole. For example, more concerted action in the implementation of reforms would facilitate the necessary convergence between Member States. Early discussion of reform plans of the euro area Member States, building on existing practices and effective implementation of the macroeconomic imbalances procedure are of key importance in this regard.

(4) One of the key policy challenges facing the euro area is to reduce government debt by pursuing differentiated, growth-friendly fiscal policies while boosting the growth potential of the euro area and tackling the social consequences of the crisis. Thanks to the consolidation efforts of the past years, the euro area fiscal situation has improved but a number of euro area Member States still need to continue with fiscal adjustment to bring down very high levels of debt. All euro area Member States should improve the quality of public finances with the aim of boosting productivity and employment.

(5) Investment in the euro area fell strongly in the initial phase of the crisis and has not yet recovered to its long-term average. Sluggish investment trends are being driven by the combined impact of private sector deleveraging, financial fragmentation, and necessary fiscal consolidation efforts which have led to a reduction in public investment. Increasing investment in infrastructure and skills is essential to sustain the recovery and boost potential growth. Much of the investment must come from the private sector, but public authorities can play an important role in creating supporting conditions.

(6) In the euro area, the flow of credit to the real economy remains subdued and financial market fragmentation is still high in spite of reduced stress on sovereign debt. Access to finance, in particular for SMEs, remains challenging in many Member States which risks undermining economic recovery. This calls for initiatives aimed at restoring credit flows, deepening capital markets and boosting the long-term financing of the economy. Actions such as completing banks' balance sheets repair, continuing to strengthen equity buffers, where needed, asset quality reviews and stress tests help identify any remaining pockets of vulnerability and reinforce confidence in the sector as a whole. Significant progress has been achieved as regards the Banking Union, in particular with the establishment of the Single Supervisory Mechanism and the agreement on the Single Resolution Mechanism.

(7) The financial crisis has exposed gaps in the architecture of Economic and Monetary Union. On 28 November 2012, the Commission presented a blueprint for a deep and genuine economic and monetary union with the aim of launching a European debate.
On 5 December 2012, the President of the European Council in close collaboration with the President of the European Commission, the President of the Eurogroup and the President of the European Central Bank, presented a report building on a number of ideas from the Commission's blueprint, and including a timeframe and a stage-based process towards the completion of the Economic and Monetary Union. The European Parliament expressed its views in its resolution of 20 November 2012. Significant steps have been taken since then. The European Council provided further views in December 2013. Further developing EMU will require a step by step approach combining discipline with solidarity. The so-called six-pack[1] and the two-pack foresee a first review of their implementation by the end of 2014.

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[1] Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 306, 23.11.2011, p. 33); Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41); Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area (OJ L 306, 23.11.2011, p. 1); Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area (OJ L 306, 23.11.2011, p. 8); Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 306, 23.11.2011, p. 12); Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

HEREBY RECOMMENDS that euro area Member States take action, individually and collectively, without prejudice to the competences of the Council as regards the coordination of economic policies of the Member States, but in particular in the context of economic policy coordination in the framework of the Eurogroup, within the period 2014-2015 to:

1. Promote and monitor, in close cooperation with the Commission, the implementation of structural reforms in those areas most relevant for the smooth functioning of the euro area in order to foster growth and convergence and adjustment of internal and external imbalances. Assess and stimulate progress in delivering on reform commitments in euro area Member States experiencing excessive imbalances and in reform implementation in the euro area Member States with imbalances requiring decisive action, to limit negative spillovers to the rest of the euro area. Foster appropriate policies in countries with large current account surpluses to contribute to positive spillovers. Regularly hold thematic discussions on structural reforms in the labour and product markets with potentially large spillovers, focussing on reducing the high tax wedge on labour and reforming services markets.

2. Coordinate fiscal policies of the euro area Member States, in close cooperation with the Commission, in particular when assessing draft budgetary plans to ensure a coherent and growth-friendly fiscal stance across the euro area. Improve the quality and sustainability of public finances by prioritising material and immaterial investment at national and EU levels. Ensure that national fiscal frameworks, including national fiscal councils, are strong.

3. Ensure the resilience of the banking system, in particular by taking the necessary action in the follow up of the asset quality review and the stress tests, and by implementing the Banking Union regulations and taking forward the further work foreseen in the SRM transition period. Stimulate private sector investment and increase the flow of credit to the economy via actions to improve access to credit by SMEs, deepening of capital markets, restarting the securitisation market, based on the proposals and the calendar in the Commission Communication on long-term financing of the European economy.

4. Take forward work on deepening Economic and Monetary Union and contribute to the improvement of the economic surveillance framework in the context of the reviews foreseen for end 2014.

Done at Brussels,

For the Council
The President