



Council of the
European Union

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NOTE

From: General Secretariat of the Council
To: Delegations

Subject: Explanatory note - Accompanying document to Council recommendation
on the economic policy of the euro area 2024

Delegations will find here attached the post EFC and EWG version of the Explanatory note accompanying the Council recommendation on the economic policy of the euro area.

Explanatory note

*- Accompanying document to Council recommendation
on the economic policy of the euro area 2024*

Article 2ab)(2) of Regulation 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, which makes part of the section on "Economic dialogue", states that "*The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly*".

In respect of this "comply or explain rule" the Council hereby presents the following explanations to changes agreed to the Commission Recommendations for a Council recommendation on the economic policy of the euro area in the context of the European semester, on which the Commission is in disagreement.

The Council (Ecofin) has also agreed to a number of additions as well as factual or technical changes to recommendations with the full support of the Commission.

EAR 1

Commission text:

Adopt coordinated and prudent fiscal policies to keep debt at prudent levels or put debt ratios on a plausibly downward path. Achieve an overall restrictive fiscal stance in the euro area and thus facilitate the timely return of inflation to the 2% target, while remaining agile in view of the high uncertainty. Wind down crisis-related energy support measures as soon as possible and use the resulting savings to reduce deficits. While ensuring compliance with the expenditure maxima recommended by the Council, modulate the fiscal stance to avoid lasting divergences in inflation. In the medium term, develop fiscal strategies to achieve a prudent medium-term fiscal position and strengthen debt sustainability where necessary, through gradual and sustainable consolidation, combined with high-quality public investments and reforms. Where needed, include in these strategies measures to further increase the efficiency and quality of public expenditures and to improve the sustainability and adequacy of the pension and healthcare systems.

Agreed text:

Adopt coordinated and prudent fiscal policies to keep debt at prudent levels or put debt ratios on a plausibly downward path. While policies should remain agile in view of the prevailing uncertainty, achieve an overall restrictive fiscal stance in the euro area in line with the Council recommendations, and thus enhance public finance sustainability and avoid fuelling inflationary pressures. Wind down emergency energy support measures as soon as possible in 2024 and use the related savings to reduce deficits. ~~While ensuring compliance with the expenditure maxima recommended by the Council, modulate the fiscal stance to avoid lasting divergences in inflation.~~ Develop fiscal strategies to achieve a prudent medium-term fiscal position and strengthen debt sustainability where necessary, through determined, differentiated, gradual and realistic consolidation, combined with high-quality public investments and reforms, notably to deliver higher sustainable growth and to boost the euro area's resilience to future challenges. Where needed, include in these strategies measures to further increase the efficiency and quality of public expenditures and to improve the sustainability and adequacy of the pension, healthcare and long-term care systems.

Explanation:

The Council recognises the importance of avoiding fuelling inflationary pressures through fiscal policy, but sees lesser role of fiscal policy in addressing inflation differentials, where other, structural policies play a more crucial role. Consequently, the agreed text avoids the reference to modulating the fiscal stance to avoid lasting divergences in inflation, while maintaining the message on ensuring compliance with the Council fiscal recommendations.

EAR 2

Commission text:

Sustain a high level of public investment, to support the green and digital transition, strengthen productivity and resilience. Accelerate the implementation of the Recovery and Resilience Plans, including their REPowerEU chapters. Make full use of cohesion policy programmes and ensure that their mid-term review takes into account, among others, the challenges identified in the European Semester and the progress in implementing the European Pillar of Social Rights, without reducing their overall ambition.

Agreed text:

Sustain a high level of public investment, to support the green and digital transition, strengthen productivity, competitiveness and boost economic and social resilience. ~~Accelerate~~ Ensure the continued, swift and effective implementation of the Recovery and Resilience Plans, including their REPowerEU chapters. Make full use of cohesion policy programmes and ensure that their mid-term review takes into account, among others, the new challenges and recommendations identified in the European Semester and the progress in implementing the European Pillar of Social Rights, without reducing their overall ambition.

Explanation:

The Council considers it of utmost importance to ensure continued, swift and effective continued implementation of the Recovery and Resilience Plans, without detriment to the Commission's rigorous evaluations. Consequently, the agreed text avoids references to accelerating implementation as the Council remains sceptical whether further acceleration of the implementation is feasible.