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NOTE

From:	Council Secretariat
To:	Coreper
Subject:	EU 2020: Macroeconomic and fiscal guidance – Draft Council Conclusions

Delegations will find attached the Draft Council Conclusions on European Semester: macroeconomic and fiscal guidance.

Encl.:

European Semester: macroeconomic and fiscal guidance

– Draft Ecofin Conclusions –

I LAUNCHING THE EUROPEAN SEMESTER

1. Against the backdrop of the crisis, the Council REAFFIRMS that the most urgent task for the EU is to restore confidence by preventing a vicious cycle of unsustainable debt, disruption of financial market and low economic growth, through ensuring sustainability of public finance, correcting harmful macro-economic imbalances, advancing financial repair and boosting potential economic growth. In the context of more integrated country surveillance under the European Semester, the Council EMPHASISES that the main focus of Stability and Convergence Programmes and National Reform Programmes for the period 2011/2012, to be submitted preferably by mid-April or end April at the latest, should be on implementing rigorous fiscal consolidation, promoting employment growth and accelerating growth-enhancing structural reforms, taking into account country-specific situations. The Council ENCOURAGES the Commission to propose ambitious country-specific recommendations on this basis and also to come forward with ambitious proposals for actions at the EU level and for the euro area. All EU instruments should be mobilised to promote economic growth and jobs, supporting Member States specific actions while respecting fiscal constraints.

2. The Council WELCOMES the Commission's first Annual Growth Survey marking the start of the European semester for economic policy coordination; a more integrated macro-economic and macro-structural surveillance; and advancing the EU's comprehensive response to the economic and financial crisis, both at Member State and EU level. It provides, together with the Europe 2020 Integrated Guidelines, the basis for *ex ant*e coordination in the Council and guidance by the European Council to Member States for the comprehensive strategies to be set out in Stability and Convergence Programmes and National Reform Programmes. The guidance will also contribute to sharpening the preparation of the national budgets for 2012.

3. In line with the new integrated surveillance framework and the Europe 2020 Integrated Guidelines, the Council INVITES Member States to present a comprehensive response with concrete, detailed and ambitious measures to both fiscal and macro-structural challenges, including bottlenecks to growth, in their Stability or Convergence Programmes and National Reform Programmes. The Council UNDERLINES that public acceptance of budgetary consolidation and major structural reforms is key: to this end, it important to take distributional effects into account.

4. The Council STRESSES that thematic surveillance and targets must be consistent with the need for fiscal consolidation and measures taken should be prioritised with a view to maximising the impact on economic growth and jobs in line with the overall objectives of the Europe 2020 Strategy.

II MACROECONOMIC POLICY ORIENTATIONS

Implementing a rigorous fiscal consolidation

5. The Council AGREES that it is of utmost importance for all Member States to ensure government debt sustainability, not least through announcing and implementing credible and detailed consolidation plans which require in most cases annual structural fiscal adjustments well above 0.5% of GDP, in addition to pension, health care and labour market reforms. For Member States in EDP, the deficit targets and the structural adjustments should be fully consistent with a timely correction of the excessive deficits and not lead to a back-loading of the necessary adjustment. Those Member States should set out the expenditure path and the strategy consistent with a timely elimination of their excessive deficit.

6. The Council EMPHASISES that in Member States facing very large structural budget deficits or very high or rapidly increasing levels of public debt, fiscal consolidation should be frontloaded. This should particularly be the case in Member States facing financial stress. Where economic growth or revenues turn out to be higher than expected, fiscal consolidation should be further accelerated.

7. The Council UNDERLINES that all Member States should keep the growth of expenditure net of discretionary revenue measures clearly below the medium-term rate of potential GDP growth until they have reached their MTO, while prioritising sustainable growth-friendly expenditure and promoting efficiency of public spending. While recognising that taxation issues fall within the scope of the powers of Member States, the Council CONSIDERS that, where taxes need to be increased, preference should be given to raising indirect taxes and to a broadening of tax bases. Unjustified tax expenditures and subsidies should be eliminated.

8. The Council CALLS ON Member States to present in their forthcoming Stability and Convergence Programmes concrete multi-annual consolidation plans including specific deficit, revenue and expenditure targets and the strategy envisaged to reach these targets. Stability or Convergence Programmes should be based on cautious growth and revenue forecasts.

Correcting macro economic imbalances

9. The Council REAFFIRMS that urgent action is needed to correct harmful and persistent macroeconomic imbalances, and to improve the competitiveness of the concerned Member Sates. Inside the euro area this is crucial for the smooth functioning of monetary union. In particular, Member States with large current account deficits and –high levels of indebtedness - both public and/or private - should present concrete policy measures to address these imbalances in their forthcoming National Reform Programmes and, where appropriate, also in Stability and Convergence Programmes. To improve competitiveness, Member States need to promote labour cost developments consistent with local economic and labour market conditions, medium term productivity trends and the need to unwind existing imbalances. Rigidities which impede the competitiveness adjustment need to be removed. The policy responses to macro economic imbalances are complex and where relevant social partners have an important role to play.

10. The Council UNDERLINES that in Member States with large current account surpluses, policies should aim at identifying and implementing, where relevant, structural reforms that help strengthening domestic demand. In particular, further liberalisation of the services sector and improving conditions for investment should be addressed, where necessary, in their National Reform Programmes.

Ensuring stability of the financial sector

11. The Council WELCOMES the strengthening of the EU-wide supervisory framework, as the ESRB and ESAs have become operational at the beginning of 2011.

12. The Council STRESSES that the restructuring of banks where appropriate should be accelerated as it is essential to restore their long-term viability and to fully re-establish the proper functioning of the credit channel. The gradual withdrawal of public financial support to the banking sector as a whole should continue to take into account the need to safeguard financial stability.

13. The Council RECALLS that more ambitious and stringent EU-wide stress tests of financial institutions will be conducted in 2011. These are important tools at this juncture. Member States should prepare, ahead of the publication of the results, specific and ambitious strategies for the restructuring of vulnerable institutions, including possible private sector solutions. Where needed, Member States should recapitalise, restructure or resolve banks, as appropriate. In order to prepare for the future implementation of the Basel III framework, banks will have to progressively strengthen their capital base.

Growth and job-enhancing structural reforms

14. The Council EMPHASISES that in current economic circumstances it is crucial to complement fiscal consolidation efforts with well designed growth-enhancing and resource-efficient structural reforms. This is important for all Member States and for the EU as a whole, but is particularly so for countries with vulnerabilities resulting from debt dynamics in the economy, large fiscal consolidation needs and fragile growth prospects. For these countries a more accelerated agenda for the implementation of key growth enhancing reforms will be essential.

15. The Council HIGHLIGHTS that fiscal consolidation should be accompanied by reforms aimed at ensuring sustainable and adequate pension systems, notably by increasing the effective retirement age and by better aligning retirement age and/or pension benefits to changes in life expectancy; reducing early retirement schemes which risk reducing the labour force; and promoting active labour market policies and life-long learning. While public pensions will continue to play an important role, private savings including second-pillar schemes could provide a useful complement to enhance retirement incomes and should be encouraged.

16. The Council AGREES that, labour market policies should promote skills, create incentives to work and reduce labour market exclusion, in particular of vulnerable groups. The Council UNDERLINES that focus needs to be on making work more attractive and getting the unemployed back to work. To reduce the risk of long-term exclusion from the labour market, benefits should be closely tied to training and/or effective job search. Where possible, taxes should also be shifted away from labour in order to stimulate labour utilisation and create conditions for growth. Tax-benefit systems, flexible work arrangements and child care facilities should aim at facilitating labour market participation and promote hours worked In general, unemployment benefits should be reviewed to ensure that they provide incentives to work while limiting long-term unemployment and the consequent losses in human capital during downturns.

17. In order to reduce unemployment, the reallocation of labour across and within sectors should be facilitated. The Council CONSIDERS that labour market institutions, including employment protection legislation, should be reviewed, where relevant, and reformed as necessary with a view to reducing labour market rigidities and supporting labour market participation, while at the same time ensuring appropriate protection of workers at the margins of the job market and on temporary contracts. In this regard the national practises as regards the role of social partners need to be taken into account. The regimes for recognising professional qualifications should be simplified to facilitate the free movement of citizens and workers.

18. The Council NOTES that many Member States also face challenges regarding increasing productivity and the transition towards higher value-added production and exports, and in several cases a diversification of the industrial base. This requires promoting innovation capacity and skills-upgrading, increasing capital investment including in infrastructure, ensuring an efficient regulatory business environment, administrative efficiency as well as promoting a higher degree of competition, particularly in some regulated sectors.

III MOBILISING COMMUNITY LEVEL GROWTH DRIVERS

19. The Council REAFFIRMS the importance of further deepening of the Single Market. In particular, the Council CALLS FOR prioritising the various policy proposals put forward by the Communication "Towards a Single Market Act" with a view to boosting economic activity and employing the Single Market as a growth driver. The Council also CALLS ON the Commission to adopt specific measures at EU level which are key to growth and jobs. Focus should be given to promoting the well functioning and integration of markets, notably services markets (including financial markets); smart EU regulation; and EU's economic, social and territorial cohesion. The Council RECALLS that the Services Directive should be implemented fully and unjustified restrictions on business-to-business services, professional services and on the retail industry should be removed. Further use of the mutual evaluation process will improve the Single Market in services. The external dimension of the Single Market is also important and focus should be on promoting free and open trade.