EUROPEAN COMMISSION

Brussels, 7.6.2011
SEC(2011) 828 final

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

{SEC(2011) 737 final}

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

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to the recommendation of the European Commission[1],

Having regard to the conclusions of the European Council,

After consulting the Economic and Financial Committee,

Whereas:

(1) On […] the Euro Group held a discussion on the implementation of the broad guidelines for the economic policies of Member States whose currency is the euro area, recognising the need further to strengthen within the Euro Group the policy coordination and the monitoring of the implementation of the recommendations addressed to the Member States whose currency is the euro.

(2) On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(3) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014). Member States and, where relevant, the European Union were invited to take the guidelines into account in their economic policies.

(4) On 12 January 2011, the Commission adopted the first Annual Growth Survey, marking the start of a new cycle of economic governance in the EU and the first European semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy.

(5) On 25 March 2011, the European Council endorsed the priorities for fiscal consolidation and structural reform (in line with the Council's conclusions of 15

[1] OJ C , , p. .

February and 7 March 2011 and further to the Commission's Annual Growth Survey). It underscored the need to give priority to restoring sound budgets and fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth. It requested Member States to translate these priorities into concrete measures to be included in their Stability or Convergence Programmes and National Reform Programmes.

(6) On 25 March 2011, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time to be included in their Stability or Convergence Programmes and their National Reform Programmes.

(7) In April and May 2011 the euro area Member States submitted their 2011 Stability Programmes covering the period 2011-2014 and their 2011 National Reform Programmes. These programmes have been assessed at the same time.

(8) The experience of the first decade of the euro generally underlined the many benefits of the single currency. However, the global crisis resulted in a deep contraction in 2009, which sent euro area GDP below its 2006 level. While 2010 saw that GDP grow again, output still remains below that of 2007. As a consequence, euro area unemployment rose from 7.6% in 2007 to 10.1% in 2010. Public finances in the euro area deteriorated, triggering a significant reassessment of sovereign debt risks in some Member States and bringing about risks to macro-financial stability. Growth is now recovering, with divergences between Member States reflecting both structural and cyclical differences. The crisis triggered reduction in macroeconomic imbalances which had developed before the crisis. However, it remains to be seen whether this is sufficient and sustainable.

(9) General government balances in the euro area have, on average, begun to improve in 2010. Based on the Commission spring forecast, assuming unchanged policies, they are expected to continue improving in 2011. However, public debt will continue to grow until 2012. If not corrected in the years to come, it may jeopardise long-term fiscal sustainability given the combination of low potential growth and unfavourable demographic developments. In 2010, the euro area deficit decreased to 6.0% of GDP, while the debt ratio increased to 85.1% of GDP. According to the 2011 Stability Programme targets, the euro area deficit would fall to 1.3% of GDP in 2014 and the debt ratio would begin to decline again to below 85% of GDP in 2014, after peaking in 2012. Such a path of fiscal consolidation for the euro area as a whole would be broadly compatible with the strengthening of the recovery. The planned emphasis of consolidation on expenditure reduction relative to tax increases enhances the likelihood of its success. Still, a concern remains in a number of countries as to the effective implementation of the plans. Moreover, several euro area Member States have recently implemented new fiscal rules or announced the strengthening of existing ones, but these will in some Member States require additional measures to be fully effective. In view of ageing populations, reforms of pensions and social security systems are not yet sufficient to ensure fiscal sustainability.

(10) The EU policy response has brought improvements to the functioning and stability of the financial system. Challenges in the financial sector in several euro area Member States include banks' exposure to further losses on their asset holdings or a tightening of conditions on refinancing markets, the continuation of banking sector restructuring

and recapitalisation, while public sector support to the banking sector is still to be phased out.

(11) Improvements in productivity and competitiveness are needed to increase the growth potential of the euro area and to address the macroeconomic imbalances within the euro area. In this respect, euro area Member States announced a number of structural reforms in their National Reform Programmes. However, there are still shortcomings on measures needed to improve the functioning of their product and labour markets, notably regarding service sectors, growth-friendly fiscal consolidation, and the wage setting systems.

(12) In order to ensure the proper functioning of EMU, euro area Member States are under a particular obligation to regard their economic policies as a matter of common concern due to the potential for spillover effects among countries sharing a common currency. Therefore, a more comprehensive and permanent overhaul of economic policy coordination at the EU and euro area level proved necessary in light of the crisis and the current challenges. The integrated annual surveillance cycle enshrined in the 'European Semester', the strengthened economic governance framework as proposed by the Commission, the creation of the European Systemic Risk Board and the European supervisory agencies, and the European Stability Mechanism are essential elements some of which remain to be fully adopted and/or implemented. The 'Euro Plus Pact' further reinforces this framework.

(13) The Commission has assessed the Stability Programmes and the National Reform Programmes of the euro area Member States[2], taking into account the need to reinforce the overall economic governance of the euro area. It considers that strict adherence to budgetary targets, with a reinforcement in some Member States, and further measures to strengthen fiscal rules and sustainability are required. Additional steps should also be taken to improve financial stability, incentives to work, wage setting mechanisms, the efficiency of service sectors, and euro area governance,

RECOMMENDS that Member States whose currency is the euro should take action within the period 2011-2012 to:

(1) Strictly adhere to the budgetary targets set out in their 2011 Stability Programmes as well as the Memoranda of Understanding in Member States receiving EU/IMF financial assistance and, where applicable, reinforce consolidation efforts in line with the opinion delivered by the Council.

(2) Ensure fiscal discipline at both national and sub-national levels by introducing fiscal rules supported by a sufficiently strong and binding legal framework.

(3) Implement reforms to social security systems that ensure fiscal sustainability with due regard to the adequacy of pensions and social benefits, notably by aligning pension systems with the national demographic situation.

(4) Improve the functioning and stability of the financial system, following up immediately on the forthcoming EU-wide stress tests to ensure that the banking sector becomes resilient to possible further losses or funding constraints and that

[2] SEC(2011) 737.

non-viable financial institutions are able to restructure or exit the market without creating undue tensions on financial markets.

(5) Pursue further tax reforms which give priority to growth-friendly sources of taxation while preserving overall tax revenues, in particular by lowering taxes on labour to make work pay; when reducing public expenditure, protect growth-enhancing items such as spending on research and development, education and energy efficiency; where necessary adjust wage setting arrangements and indexation mechanisms in consultation with social partners, so as to ensure that wages are evolving in line with productivity and competitiveness.

(6) Introduce further reforms in service sectors, in particular by removing unjustified restrictions on professional services, retailing and network industries.

(7) Fully implement the commitments made in the Euro Plus Pact so as to enhance growth, competitiveness and employment within the area.

Done at Brussels,

For the Council
The President