



**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 18 June 2013**

**11178/13**

**UEM 234  
ECOFIN 581  
SOC 487  
COMPET 483  
ENV 583  
EDUC 240  
RECH 284  
ENER 302**

**COVER NOTE**

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from:	General Secretariat of the Council
date of receipt:	18 June 2013
to:	COREPER/COUNCIL
Subject:	European semester review 2013 - Letter from the president of the Economic and Finance Committee to the president of the ECOFIN

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Delegations will find attached a letter from the president of the Economic and Finance Committee to the president of the ECOFIN.

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Encl.:



### **European semester review 2013**

Dear Michael,

I should like to report to you on the outcome of this year's European semester review exercise that we held on 13-14 June. The exercise covered a review of the Commission recommendations for country-specific recommendations in the area of fiscal and structural policies falling in the area of competence of the Ecofin Council, including recommendations issued under the preventive arm of the Macroeconomic Imbalances Procedure (MIP). Furthermore, the EFC also discussed and prepared draft Council decisions and recommendations under the excessive deficit procedure for a number of Member States.

Members noted that the recommendations are to be implemented in a continued weak macroeconomic environment. Therefore, it was deemed essential to combine the on-going consolidation efforts with the full implementation of the required structural reforms which could pay a double dividend through increasing competitiveness and potential growth as well as contributing to the sustainability of public finances.

Against this background, Members welcomed the stronger focus of the recommendations on growth-enhancing reforms and stressed the importance of ensuring that fiscal consolidation is growth friendly. Fiscal consolidation and well-designed structural reforms should go hand-in-hand so as to mutually reinforce each other to ensure fiscal sustainability and promote a more dynamic and prosperous EU.

Members broadly agreed that, in view of the current weak macroeconomic conditions and the efforts already undertaken to improve debt sustainability, fiscal policy should, in line with the rules of the Stability and Growth Pact, allow for the functioning of automatic stabilisers around the path of structural adjustment, and for the modulation of the fiscal effort in view of economic conditions, which is particularly relevant for Member States facing a substantial rebalancing of their economy. On this basis, the fiscal policy recommendations proposed by the Commission, either under the European Semester or the excessive deficit procedure were deemed broadly appropriate.

At the same time, in view of the high complexity of the Stability and Growth Pact, some Members asked for a number of further methodological clarifications, for instance for the methodology used for setting deadlines for the correction of excessive deficits and the ensuing fiscal effort, the method used to assess effective action and the method used for establishing the calendars of convergence towards the MTO. The EFC stands ready to revisit these issues over the coming months.

Also the difference in nature between the fiscal recommendations under the European Semester, falling under the preventive arm of the Pact, on the one hand, and the recommendations under the excessive deficit procedure, i.e. the corrective arm of the Pact, on the other hand, are to be kept in mind. In the latter case, non-implementation of the recommendations leads to the semi automatic

imposition of sanctions. Moreover, the fiscal compact introduced quasi reverse qualified majority for the decision-making on steps under the excessive deficit procedure.

As regards structural policies and recommendations under the preventive arm of the Macroeconomic Imbalances Procedure, there was broad support for the recommendations put forward by the Commission, addressing the key areas where prompt policy responses are key and important longer term challenges remain. The efforts by the Commission to provide more concrete recommendations and apply somewhat more differentiation with more concrete timelines, in particular for countries with larger challenges and excessive imbalances, was appreciated. Recognising the difficulties identifying clear measures on which monitoring and follow up is facilitated, on one hand, and leaving appropriate room to Member States to design their own policies and to ensure Member State ownership, on the other, the balance can generally be regarded as appropriate. Consequently, the changes introduced to the Commission recommendations are overall limited and marginal.

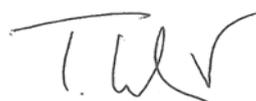
Two areas of recommendations can however be identified where Members, for different reasons, felt that the balance could be further improved.

First, in the area of pensions, Members considered that recommendations were overly prescriptive, or narrowly defined. Moreover, they did not sufficiently take into account the on-going dialogue with social partners at national level, by specifying the precise parameters to be changed. While reaffirming the overall objective of increasing the effective retirement age and ensuring the long-term sustainability of pension systems, the Committee agreed on a somewhat revised text providing more room for alternative policy responses. To this end, the common agreed language is recalled from the 12 February 2013 Ecofin Conclusions on the 2012 Sustainability report.

Second, a few Member States were uneasy about the recommendations relating to the independence of their judiciary. They pointed to measures already undertaken and asked for clearer indications about further concrete steps. In the context of ensuring competitiveness, fighting corruption and safeguarding the business environment, the Committee agreed with the Commission on the importance of measures in this area, but also recognised that progress in this area takes time and that assessing progress is complex.

To conclude, I would like to stress that it will now be important to ensure full implementation of the recommendations. The EFC stands ready to review implementation towards the end of the year, on the basis of a Commission assessment. Also further discussions on the means to enhance enforcement could be envisaged.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'T. Wieser', with a stylized flourish at the end.

Thomas Wieser