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NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee (part 2)/Council

Subject: European Semester 2019 - Annual Growth Survey: Macroeconomic and
Fiscal Guidance to Member States
– Draft ECOFIN Council conclusions

Delegations will find attached the draft Council conclusions on the Annual Growth Survey 2019,
as prepared by the Economic and Financial Committee on 10–11 January 2019.

2019 EUROPEAN SEMESTER:
MACROECONOMIC AND FISCAL GUIDANCE TO MEMBER STATES

– Draft ECOFIN Council conclusions –

The Council (ECOFIN):

I. THE 2019 EUROPEAN SEMESTER

1. WELCOMES the Commission's Annual Growth Survey (AGS) 2019, setting out the policy priorities for growth and jobs in the EU and its Member States, and marking the starting point of the 2019 European Semester. BROADLY SHARES the Commission's analysis of the policy priorities on which national and EU level efforts should continue to concentrate in 2019: delivering high-quality investment, focusing reform efforts on productivity growth, inclusiveness and institutional quality, and ensuring macroeconomic stability and sound public finances.
2. SHARES the Commission's assessment that growth of Europe's economy has slowed down and is set to ease further while remaining positive. GDP growth is broad-based across Member States, and real convergence has resumed. Employment is at record levels and unemployment is falling, national government deficits in most cases have returned to pre-crisis levels and the investment gap brought about by the crisis is now nearly closed. At the same time, public debt remains elevated, and risks to the economic outlook are substantial and largely tilted to the downside.
3. SHARES the Commission's assessment that the growth of the economy is still not benefitting all citizens and countries in the same manner and growth remains vulnerable to global instability and medium to long-term challenges. CALLS on Member States to build up buffers, in particular in countries with high public debt, and to foster the resilience and growth potential of their economies. Some Member States still experience high unemployment with household income below pre-crisis levels whilst others suffer from underemployment or skill shortages.

4. STRESSES that reform implementation remains uneven across the EU and that pressing economic and social priorities, including those set out through the principles of the European Pillar of Social Rights, require decisive progress in implementing national reforms to tackle the EU's structural challenges. CALLS on Member States to take advantage of the relatively favourable economic climate to push forward with structural reforms to strengthen sustainable and balanced growth, tackle macroeconomic imbalances, and deliver sustained economic and social convergence.
5. UNDERLINES the importance of monitoring performance and policy implementation, including implementation of the country specific recommendations, throughout the year. LOOKS FORWARD to a substantial Council discussion in March 2019 on the implementation of the country specific recommendations with a focus on the key economic and social challenges, including productivity and investment challenges and needs.
6. ACKNOWLEDGES the particular timing constraints for the agreement of the 2019 Country-specific recommendations, but CALLS, for the early adoption in May of the Commission's proposals in order to ensure a genuine multilateral European Semester and national ownership of well-founded recommendations.

II. FISCAL AND MACROECONOMIC POLICY ORIENTATIONS

DELIVERING HIGH-QUALITY INVESTMENT

7. RECOGNISES that investment can help deliver on the EU's objective of moving towards a low-carbon, circular economy. AGREES that the current economic growth should be used to frontload investment in the modernisation and decarbonisation of Europe's industry, transport and energy systems and at the same time lowering its environmental impact, and investing in education, training and skills. STRESSES that efforts should focus on improving the investment climate and well-targeted investment should go hand in hand with a well-designed set of structural reforms.

8. TAKES NOTE of the Commission's proposals for the next EU Multiannual Financial Framework and the aim to deliver more and better investment by national authorities and the private sector. Given that well-targeted investment is a main engine for EU growth, WELCOMES that the Commission intends that the 2019 European Semester will have a stronger focus on assessing investment needs to guide programming decisions for 2021–2027 period. INVITES the Commission to provide this analysis in a systematic manner and in dialogue with all Member States.

**FOCUSING REFORM EFFORTS ON PRODUCTIVITY GROWTH,
INCLUSIVENESS AND INSTITUTIONAL QUALITY**

9. WELCOMES the focus on a stronger productivity performance as the key to Europe's future prosperity. STRESSES the crucial role of better productivity growth for Europe's sustained economic growth, but EMPHASISES that there remain considerable differences in productivity performance across EU firms, regions and sectors, particularly service sectors, where productivity growth is failing to keep pace with international competition. SHARES the Commission analysis that well-performing public institutions contribute to higher growth, are an important precondition for the successful delivery of other reforms, and are generally associated with higher productivity.
10. AGAIN REAFFIRMS that the European single market for goods and services remains the most powerful engine of growth and jobs, and further work on the Single Market, including Digital Single Market, Banking Union, Capital Markets Union and Energy Union should be the common EU priority. Well-functioning product and services markets are a key driver of productivity growth, as they enable a more efficient allocation of resources. Key reforms of the business environment, in the energy, telecommunication, transport, business services and retail markets are important in enabling such productivity growth. INVITES the Commission to monitor closely policy implementation and enforcement in the abovementioned areas, and provide recommendations to Member States when relevant within the European Semester.

11. WELCOMES that this AGS stresses the importance of inclusive growth. Wage growth, resulting from increased productivity, and fair and efficient tax-benefit systems and continued and improved access to quality healthcare, childcare and long-term care services are required for inclusiveness.
12. STRESSES that Europe's ageing population is a challenge for pension, healthcare and long-term care systems. The 2018 Ageing Report highlights that the expected decline of the working-age population will act as a drag on growth over the long-term whilst total age-related public expenditure is projected to rise by 1.7 percentage points of GDP between 2016 and 2070 in the EU, to reach 26.6 % in 2070, although with large differences across countries, thus highlighting that ensuring long-term sustainability of public finances is also a key challenge.

ENSURING MACROECONOMIC STABILITY AND SOUND PUBLIC FINANCES

13. SHARES the Commission's assessment that macroeconomic stability and sound public finances remain a precondition for sustainable growth and RECALLS the Council conclusions on the alert mechanism report in this regard.
14. WELCOMES the fact that a number of Member States have reduced their public debt and achieved or exceeded their medium-term budgetary objective. However, ACKNOWLEDGES that several other Member States have adjusted less and are at risk of a significant deviation from the adjustment path towards their respective medium term objectives. UNDERLINES that high debt levels remain a vulnerability that could lead to increased financing costs across the economy and which may constrain their ability to invest. RECALLS that the coordination of national fiscal policies based on the common fiscal rules is essential for the proper functioning of the Economic and Monetary Union.

15. AGREES that the strengthening of fiscal sustainability of the Member States requires differentiated national policies in full respect of the Stability and Growth Pact, taking into account fiscal space and spillovers across countries. SHARES the Commission's assessment that Member States, in particular with high levels of public debt, should use the current economic conditions to build up buffers and reduce debt while fostering the resilience and growth potential of their economies. CONCURS that doing so would also reduce their vulnerability to shocks and allow for the full functioning of automatic stabilisers in case of a downturn. AGREES that in Member States which have overachieved their MTO, increasing public investment supports growth and rebalancing, depending on country specific circumstances.
16. AGREES that improving the quality and composition of public finances is important for ensuring macroeconomic stability and a crucial element of Member States' fiscal policy. On the revenue side, efficient tax systems that provide incentives for investment and growth should be established. Efforts are also needed on the expenditure side, through spending reviews and by prioritising expenditure that fosters long-term growth and equity.
17. SHARES the Commission's assessment that the resilience of the financial sector in the EU has improved, but efforts to reduce non-performing loans and strengthen supervisory frameworks need to continue.
