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COVER NOTE

from: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

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to: Mr Uwe CORSEPIUS, Secretary-General of the Council of the European
Union

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Subject: COMMISSION STAFF WORKING DOCUMENT on the exception clause
(Article 10 of Annex XI to the Staf Regulations) *Accompanying the document*
Proposal for a Council Regulation adjusting with the effect from 1 July 2012
the remuneration and pensions of the officials and other servants of the
European Union and the correction coefficients applied thereto

Delegations will find attached Commission document SWD(2012) 428 final.

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COMMISSION STAFF WORKING DOCUMENT

on the exception clause (Article 10 of Annex XI to the Staff Regulations)

Accompanying the document

Proposal for a Council Regulation

adjusting with the effect from 1 July 2012 the remuneration and pensions of the officials and other servants of the European Union and the correction coefficients applied thereto

{COM(2012) 754 final}
{SWD(2012) 427 final}

COMMISSION STAFF WORKING DOCUMENT

on the exception clause (Article 10 of Annex XI to the Staff Regulations)

Accompanying the document

Proposal for a Council Regulation

adjusting with the effect from 1 July 2012 the remuneration and pensions of the officials and other servants of the European Union and the correction coefficients applied thereto

1. INTRODUCTION

Further to the Council's request to the Commission of 19 March 2012¹, "*in conformity with Article 241 TFEU, to monitor closely the evolution of the economic and social situation as well as to present, on the basis of Article 10 of Annex XI of the Staff Regulations, a report assessing, whether, in the light of objective data supplied by the Commission, there is a serious and sudden deterioration in the economic and social situation within the EU and to submit appropriate proposals [...]*", the Commission submitted to the Council on 31 August 2012 its report on the exception clause.²

The Commission report concluded that the legal criteria of Article 10 of Annex XI were not met during the reference period of 1 July 2011 to mid-May 2012. Therefore, it considered not appropriate to submit a proposal under Article 10 of Annex XI to the Staff Regulations.

On 25 October 2012, the Council made a new request, on the basis of Article 241 TFEU, to the Commission "*to submit, in accordance with Article 10 of Annex XI to the Staff Regulations and in the light of objective data submitted by the Commission so far, an appropriate proposal for this year's EU-salary adjustment in time for the European Parliament and the Council to examine and adopt it before the end of 2012*".³

The Commission takes note that, contrary to the Council's request of 4 November 2011⁴, the latest request asks the Commission to submit a proposal only taking into account "*the data submitted by the Commission so far*", i.e. concerning the reference period of 1 July 2011 to mid-May 2012 and not in the light of data reflecting the situation in autumn 2012.

However, as the Commission is bound by the duty of cooperation in good faith between the institutions regarding the application of Article 10 of Annex XI recognised by the case-law⁵, it constantly monitors the evolution of the economic and

¹ Council document 7421/12 of 12 March 2012.

² COM (2012) 476 Final of 31 August 2012.

³ Council document 14913/12 of 12 October 2012.

⁴ Council document 16281/11 of 4 November 2011.

⁵ Case C-40/10 Commission/Council.

social situation. Therefore, the Commission considers that, for the sake of completeness, it is appropriate to verify whether there have been any changes in the economic and social situation that would justify any change to the conclusion of the Commission Report of 31 August 2012.

2. RECENT DEVELOPMENTS IN THE ECONOMIC AND SOCIAL SITUATION WITHIN THE EU⁶

The outlook of the European economy is mixed, due to some disappointing data and encouraging signs of progressive economic adjustment in Member States and important policy advances. The ongoing post-financial crisis correction continues to weigh heavily on economic activity and employment in the EU. Yet, compared with the situation before the summer, over the last few months financial tensions have somewhat abated. A return to moderate growth is projected in the first half of 2013.

In the meantime, wide cross-country divergences in economic activity and labour market dynamics have emerged, originating primarily in varying needs for public- and private-sector deleveraging and for reallocation of resources across sectors, but also in large disparities in financing conditions.

Due to the weak starting point, the gradual recovery setting in 2013 will result in a low annual GDP growth rate of 0.4% for 2013 in the EU. GDP growth is forecast to rise in 2014 to around 1.6% in the EU, with domestic demand returning to provide a positive contribution to growth on the back of an expected normalisation of financing conditions, a stabilisation of sectoral balance sheets and returning confidence.

Due to the ongoing post-financial crisis correction, the real GDP of the Union for 2012 is expected to appear negative, at the rate of -0.3%, with quarterly rates fluctuating around 0. In the third quarter of 2012, the GDP rate increased very slightly, i.e. by 0.1%, compared to the previous quarter. A return to moderate growth is projected in the first half of 2013. The full implementation of far-reaching policy measures announced over recent months and progress with the correction of imbalances should reduce financial stress in vulnerable Member States further and lead to a gradual restoration of confidence across the EU, which is necessary for investment and private consumption to return. As the current weakness of global demand is expected to be temporary, net exports are projected to provide some impetus for the recovery of investment, later spilling over to consumption. A moderate recover is thus expected to start in 2013.

The cumulative value of the GDP has increased since the recession that occurred in 2009. In 2011 it has reached 2.6 % (2006 is used as a basis). In 2013, it should further increase to 2.7 % and in 2014 make another leap to 4.3%, due to more significant economic growth that year.

The European Sentiment Indicator has declined to 86.2 in September, as consumers as well as firms have become more pessimistic about the near-term perspectives, and remained at the same rate in October, showing signs of stabilisation.

⁶ The assessment of the economic and social situation in the European Union is based on the 2012 Autumn European Economic Forecast issued by DG ECFIN on 7 November 2012 and the statistical data provided by Eurostat.

Fiscal consolidation is expected to continue. Fiscal deficits are expected to fall to 3.6% of GDP in the EU on the back of consolidation plans implemented in the course of the year. The available information from budgets for 2013 points to continued, though somewhat slower, consolidation with headline deficits projected at 3.2% of GDP in the EU. A moderate decrease in the pace of fiscal consolidation is also reflected in the structural improvements of the budget balance, which in the EU is expected at 1 pp. of GDP in 2012 and ¾ pp. in 2013.

Government debt-to-GDP ratios continue to stabilise as expected, with the rate increasing from 86.8% in 2012 to 88.5% in 2013 and remaining at that level in 2014 (88.6%). The number of Member States in an ongoing excessive deficit procedure has decreased from 23 to 21 with the procedure terminated for Bulgaria and Germany and the procedure about to end for Malta. Eight other Member States are expected to have the procedure terminated in 2012.

Consumer-price inflation in the EU is projected to remain relatively high in 2012 (2.7%), inter alia due to the impact of fiscal measures, but is expected to abate gradually over the forecast horizon, averaging 2.0% and 1.8% in 2013 and 2014 respectively.

The unemployment rate in the EU has increased as expected and is forecast to reach 10.5% in 2012. After another leap in 2013 to 10.9%, it is forecast to retrieve and go down to 10.7% in 2014. Due to the lack of fiscal space and the ongoing structural adjustment in some Member States that limit the scope for supportive policy measures, the employment will decrease by 0.4% in 2012 and by 0.2% in 2013. A modest recovery in economic activity in horizon may help to stabilise the labour market situation at the end of 2013 and give rise to feeble employment growth in 2014 of 0.6%.

Salaries in total economy are expected to increase by 2.1 % in 2012 and 2013 and by 2.3% in 2014. At the same time, the wage bill in the public sector⁷ will continue increasing, although at a slower pace (0.3% in 2012 and 1.5% in 2013 and 2014). Lower rates of compensation of employees in general government reflect not only increases in salaries, but also staff cuts, which is a measure proposed by the Commission in the EU Institutions.

3. CONCLUSION

It follows from the above social and economic data that there has been neither a serious nor a sudden deterioration in the economic and social situation in the European Union after the presentation of the Report of 31 August 2012 that would justify any change to the conclusions of that Report. Therefore, the legal criteria of Article 10 of Annex XI of the Staff Regulations have not been met, and the Commission considers that it is not appropriate to submit a proposal under Article 10 of Annex XI to the Staff Regulations.

⁷ Measured by compensation of employees in general government.