



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from: General Secretariat of the Council
to: COUNCIL

Subject: Annual Growth Survey 2013

Delegations will find attached the draft Council conclusions on the Annual Growth Survey 2013, prepared by the Economic and Financial Committee and discussed by the Coreper on 5 February 2013.

Encl.:

2013 European Semester: macroeconomic and fiscal guidance

- Draft Council conclusions -

The Council:

I THE 2013 EUROPEAN SEMESTER

1. WELCOMES the Commission's third Annual Growth Survey, marking the starting point of the 2013 European semester, and AGREES that the five broad priority areas outlined by the Commission on which national and EU level efforts should concentrate in 2013 remain valid.

2. EMPHASISES that the growth and debt challenges confronting the EU economy continue to be serious, and that improving confidence and reviving economic growth, ensuring debt sustainability and improving competitiveness, while creating conditions for sustainable growth and jobs in the longer-term, are the main priorities at the current juncture; and UNDERLINES that this requires coherent national responses that will take into account interactions between different policies as well as spill over effects between Member States. Continued efforts are needed especially in the area of breaking the vicious cycle between weak financial systems, tensions in the sovereign debt market and low economic growth. In view of the duration of the economic and financial crisis and prospects of a slow recovery, STRESSES the need to sustain fiscal consolidation and ensure debt sustainability, while resolutely addressing the underlying causes of the crisis, thereby preparing the ground for robust sustainable economic growth and a notable reduction in unemployment.

3. CALLS ATTENTION to the progress made in 2012, but UNDERLINES that there is no room for complacency. Significant steps are being taken with regard to the consolidation of public finances, which is contributing to reducing high debt levels and tensions in financial markets. Structural reforms have also contributed to reducing macroeconomic imbalances in both the EU and the euro area, in particular in vulnerable Member States. Adjustment in external positions appear to significant extent structural and the gains in competitiveness, if sustained, are set to support the export contribution to rebalancing and further adjustment going forward. Current account surpluses in euro area Member States have also been reduced, though less than deficits, while maintaining the surplus with non-EU countries and competitiveness vis-à-vis the rest of the world.

4. UNDERLINES that the horizontal macroeconomic and fiscal guidance provided in 2012 remains overall valid¹; and RECALLS that strong emphasis should be put on implementation of earlier reform commitments, in particular those set out in National Reform Programmes and underlined by country-specific recommendations.

5. In this respect and in line with the integrated surveillance framework of the Europe 2020 strategy and the Integrated Guidelines, CALLS ON Member States to present a comprehensive response with concrete, detailed and ambitious and effective measures to fiscal, macroeconomic and structural challenges, taking into account national starting positions, in their Stability or Convergence Programmes and National Reform Programmes; and ENCOURAGES the Commission to propose ambitious, relevant, well-targeted and evidence based country-specific recommendations on this basis, building on and refining recommendations delivered in 2012, taking into full consideration reforms already undertaken in countries as a response to previous recommendations.

6. EMPHASISES that euro area Member States are in a specific situation due to their stronger financial and economic inter-linkages and the resulting spill-overs and UNDERLINES that a prerequisite for growth and adjustment is to continue on the path of fiscal consolidation and structural reforms and to reverse financial fragmentation, to improve financing conditions for investors, especially in the vulnerable countries and to encourage the inflow and efficient allocation of capital to support adjustment; further RECALLS that the reform momentum is supported by the on-going efforts to strengthen EMU governance based on deeper integration and reinforced solidarity in the euro area as agreed by the European Council in December 2012, with the immediate priority of implementing the reformed economic and fiscal governance and financial regulation and developing the banking union; and STRESSES the importance of developing possible further measures and a time-bound roadmap at the June 2013 European Council.

¹ 2012 European Semester: macroeconomic and fiscal guidance, Council (Ecofin) conclusions of 21 February 2012.

7. REITERATES the importance of the entry into force and strict implementation of measures strengthening economic governance, notably the six pack legislation and the Treaty on Stability, Coordination and Governance; RECALLS that the entry into force of this Treaty creates an obligation on the Member States that are bound by the Treaty to ensure, with a view to best-practise benchmarking, that all major economic policy reforms that they plan to undertake will be discussed ex-ante and, where appropriate, coordinated among themselves; WELCOMES progress made on the Commission's proposals for further strengthening of euro area surveillance (the 2-pack); and CALLS FOR swift agreement with the European Parliament on the 2-pack and timely implementation of the new governance framework.

II FISCAL AND MACROECONOMIC POLICY ORIENTATIONS

Pursuing differentiated growth-friendly fiscal consolidation

8. EMPHASISES that sound and sustainable public finances are an essential prerequisite for market confidence and macroeconomic stability, and hence for growth. Fiscal adjustment has to continue along the path of a differentiated growth friendly consolidation strategy, also in view of high debt levels and medium to long term challenges to public finances.

9. REAFFIRMS that the Stability and Growth Pact offers the appropriate framework to guide the differentiated speed of adjustment. Therefore, STRESSES that Member States should continue to respect their commitments according to the rules of the Stability and Growth Pact, which require a swift correction of excessive deficits and allow the automatic stabilisers to work around the agreed path of structural adjustment, while ensuring the long term sustainability of public finances. Once excessive deficit situations are corrected in line with agreed recommendations, Member States should reach their medium-term budgetary objective, thereby ensuring a reduction in debt levels and that public finances are maintained at sustainable levels.

10. At the same time, REITERATES that those Member States which have lost financial market access for the refinancing of their debt should continue to pursue a rapid pace of fiscal adjustment to restore investors' confidence. In particular, Member States under an economic adjustment programme should fully and timely implement the policy measures and achieve the targets agreed in the respective Memorandum of Understanding, underpinning their prospects for market re-entry.

11. LOOKS FORWARD to the Commission's winter forecast and assessment of its implications for fiscal surveillance, in particular whether Member States are respecting their commitments under the Stability and Growth Pact.

12. STRESSES the role of well-designed fiscal frameworks for enhancing credibility, improving the budgetary process and budgetary outcomes at national level, for ensuring effective surveillance and for strengthening long-term fiscal sustainability.

13. RECALLS that credible fiscal adjustment strategies firmly anchored in effective governance frameworks enhance confidence and thereby mitigate the short-term effects of fiscal consolidation on growth, which should be further contained by choosing an appropriate mix of measures on the expenditure and revenue sides of government budgets; and EMPHASIZES that there is a need to devise an overall growth-friendly mix of revenue and expenditure, with targeted measures within the overall fiscal strategy to protect and if possible strengthen key growth drivers and essential social safety nets while increasing the efficiency and the effectiveness of spending. In particular, investments in education, research, innovation and energy should be prioritised, while ensuring and where necessary improving their efficiency.

14. RECALLS that the design and structure of tax systems can importantly contribute to enhance macroeconomic performance. While recognising Member States' competences in the area of taxation, INVITES Member States to consider reducing the tax burden on labour where it is comparably high to stimulate job creation and employability. To ensure that reforms are revenue neutral, a shift of the tax burden to taxes that are less detrimental to growth and job creation could be considered as well as concrete measures to improve tax compliance and the efficiency of tax collection. Broadening tax bases and removing unmotivated or harmful subsidies and tax expenditure could also be prioritised in preference to creating new taxes; and NOTES the role tax policy can play in tackling climate change.

Restoring lending to the economy

15. RECALLS the importance of restoring lending to the economy, in particular to SMEs, as part of the economic recovery and for safeguarding potential growth rates, UNDERSCORES in this regard the importance of completing the cleaning up of banks' balance sheets, including for non-performing loans, and of rebalancing companies' traditional dependence on bank financing through considering alternative sources of financing, and removing market failures and other obstacles to access to finance by SMEs, consistent with the need to preserve financial stability.

16. RECALLS the urgency the December European Council has put on moving towards a more integrated financial framework, including through finalising the negotiations with the European Parliament on the Single Supervisory Mechanism (SSM) and bank capital and liquidity (CRD IV and CRR), on the basis of the position agreed by the Council, and reaching a swift agreement in the Council on the deposit guarantee and bank resolution proposals, to provide a more effective framework for the prevention and management of financial crises; and that, when an effective SSM is established, the ESM will have the possibility, following a regular decision, to recapitalize banks in the euro area directly; REAFFIRMS that action is under way at the EU level to address possible distortions within regulation and supervision systems, including in view of reducing the fragmentation of markets which has in some cases resulted in limited and/or inappropriately costly access to lending.

17. RECALLS the importance of fast-acting growth measures included in the June 2012 Compact for Growth and Jobs; WELCOMES the planned pilot evaluation of proposed new EU financial instruments such as the project bonds that may play a key role in providing financing for investments in infrastructure across Europe and the enhancement of existing ones as well as the reprogramming and accelerated use of EU structural funds, within agreed ceilings, and the provision of additional funding by the EIB as a catalyst for targeted investment.

Promoting growth and competitiveness

18. EMPHASISES that in the current economic circumstances it is crucial that fiscal consolidation and restoring financial stability go hand-in-hand with well-designed structural reforms aimed at promoting sustainable growth, competitiveness and a sustained correction of macroeconomic imbalances through productivity increases and strengthening the adjustment capacity of the economy as well as reducing distortive tax reliefs that promote excessive indebtedness; UNDERLINES that a more coordinated approach to reforms at Member State and EU level could provide positive synergies both in economic terms as in terms of political momentum facilitating the reform process.

19. In line with fiscal consolidation strategies and a longer-term structural reform agendas aimed at promoting competitiveness, EMPHASISES that priority should be given to low cost reforms with short term growth benefits, such as competitiveness and competition-enhancing reforms in product markets, as well as reduction of unwarranted regulatory and administrative burden on companies.

20. STRESSES that Member States should focus on establishing appropriate framework conditions for strong, smart, sustainable and inclusive growth also in the longer term, focusing on conditions driving innovation, including new technologies and public and private R&D investment; raising performance in education and training systems and overall skills levels; and tapping the potential of a sustainable economy, so as to contribute both to overall resource efficiency and environmental benefits. Also financial regulation and supervision have an important role to play in ensuring orderly rebalancing and reducing the scope for boom-bust cycles.

21. WELCOMES the publication of the Commission's analysis of large sustained current account surpluses and of the main driving forces. In this context, STRESSES the important financial and trade inter-linkages between deficit and surpluses within the euro area, and the importance of appropriate financial supervision to overcome financial market fragmentation and ensuring an adequate allocation of savings, RECALLS that unlike current account deficits, large and sustained current account surpluses do not raise concerns about the sustainability of external debt or financing capacity that affect the smooth functioning of the euro area; the risks of negative spill-overs for current account surpluses are therefore less pressing than for current account deficits. While it is particularly urgent for deficit countries to continuing current efforts addressing their competitiveness challenges, UNDERLINES that addressing market failures and structural reform needs, and wages growing in line with productivity in surplus countries would contribute to rebalancing within the euro area. In particular, measures aimed at improving the functioning of specific sectors, such as services, financial intermediation and other non-tradables could be considered. Finally, EMPHASISES the need to preserve the competitiveness of the EU economies vis-à-vis the rest of the world.

22. While the performance of labour markets differs between Member States, NOTES that the duration of the crisis and the rapid restructuring of economies have highlighted weaknesses in labour market regulation. To address high and rising unemployment, in particular structural unemployment, and risks of labour market exclusion, EMPHASISES that reforms should focus on making labour markets more inclusive, flexible and dynamic, thereby providing conditions for a job-rich recovery and improving employability and adequate social protection, in particular of young people. Well-targeted measures to promote the hiring of hard hit groups should be considered to reduce the risk of persistence of unemployment and dropping out from the labour force, including through cost-effective active labour market policies. As part of a broader strategy, tax-shifts away from labour, notably low paid, could also contribute to increasing employability. While respecting the role of social partners and national systems for wage formation, wage-setting frameworks need to be monitored and where appropriate reformed to ensure that they reflect productivity developments and contribute to safeguarding competitiveness, and indexation mechanisms should be reconsidered. Minimum wage levels should strike an appropriate balance between employment creation and adequate income.

23. HIGHLIGHTS the role of effective public administrations for supporting national and EU level growth strategies and that more should be done to modernising and making full use of public procurement; ensuring interoperable, user-friendliness provision and use of services, including eGovernment tools; and improving the quality, independence and efficiency of the judicial system. Improving administrative capacity should also ensure a better use of EU Structural funds and speedier deployment.

III MOBILISING EU LEVEL GROWTH DRIVERS

24. RECALLS the conclusions of the October 2011 European Council that steps should be taken by the Council, working with the Commission, to ensure that actions at the EU level fully support economic growth and job creation, in particular through the full implementation of the “Compact for growth” adopted by the European Council in June 2012, contribute to reduce disparities between regions, as well as support and complement actions at the national level; and UNDERLINES that the EU budget should, through appropriate prioritisation and within agreed ceilings, focus on smart, sustainable and inclusive growth, jobs and competitiveness.

25. REAFFIRMS the call on the Commission to pursue EU actions supporting potential growth, jobs and competitiveness notably in the area of the Single Market Act and the Digital Single Market; WELCOMES the Commission proposals pertaining to the four drivers and twelve key actions outlined in Single Market Act II (SMA II), noting that the measures have a significant potential to contribute to growth, employment and social cohesion and thereby to contribute to attaining the Europe 2020 objectives; LOOKS FORWARD TO the Commission concrete proposals for the twelve actions outlined in the SMA II and ENCOURAGES Member States and the European Parliament, in close cooperation with the Commission and in a spirit of partnership, to make every possible effort to ensure the rapid examination of the proposals for the twelve key action of the SMA II in order to allow their adoption by the end of the current Parliament cycle at the latest so as to bring new impetus to the Single Market; UNDERLINES the need to monitor closely the progress on the key proposals of the SMA I and SMA II and ENCOURAGES the Presidency to take all necessary steps to speed up and increase the quality of the process, where progress is insufficient.

26. REAFFIRMS that Member States should deliver the full potential of the Single Market, including by removing barriers to the smooth functioning of internal market for services, including: unjustified and disproportionate restrictions to the provision of professional and business services, retail services and construction. RECALLS the Council conclusions of June 2012 on the Single Market in services, noting the significant gains in terms of growth, as well as additional trade and FDI, that can be achieved from farther reaching implementation of the Services Directive. EMPHASISES the important impetus to the economic growth that can be provided by well-performing network industries, including through a rapid roll-out of high-speed internet infrastructure, access to wireless broadband, creating open and competitive markets in energy and transport and further developing network connections.

27. UNDERLINES that trade must be better used as an engine for growth; and REITERATES the need of resisting protectionism, reinforcing the external dimension of the Single Market and enhancing coherence and complementarity between EU's internal and external policies. Focus should be on promoting free, fair and open trade at a global level, whilst at the same time asserting its interests, in a spirit of reciprocity and mutual benefit especially in relation to the world's largest economies. More efforts should in particular be geared to the removal of trade barriers, better market access, appropriate investment conditions, the protection of intellectual property rights and the opening up of public procurement markets.