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NOTE

From: General Secretariat of the Council
To: COREPER/COUNCIL

Subject: 2012 European Semester: macroeconomic and fiscal guidance
- draft Council conclusions

Delegations will find annexed the draft Ecofin Conclusions on 2012 European Semester: macroeconomic and fiscal guidance as prepared by the Economic and Financial Committee and agreed by the Permanent Representatives Committee.

2012 EUROPEAN SEMESTER: MACROECONOMIC AND FISCAL GUIDANCE
- DRAFT COUNCIL CONCLUSIONS

The Council

I THE 2012 EUROPEAN SEMESTER

1. WELCOMES the Commission's second Annual Growth Survey, marking the starting point of the 2012 European semester; and AGREES on the five priorities outlined by the Commission on which national and EU level efforts should concentrate in 2012.
2. STRESSES the urgency of a convincing policy response to the sovereign debt crisis, which combines consolidation of public finances with structural reforms aimed at substantially improving growth prospects in Member States; UNDERLINES the important short term confidence increasing effects of such responses when implemented forcefully. To this end, SUPPORTS the call for an EU wide political agenda focusing on structural measures addressing medium to longer-term growth challenges.
3. Within the five priorities outlined by the Commission, EMPHASISES that macroeconomic and fiscal policies at national and EU level should for 2012 be focused on pursuing determined growth-friendly fiscal consolidation taking into account country-specific fiscal and macro-financial risks; ensuring a healthy financial system and robust banking sector to re-establish investor confidence and restoring normal lending to the economy; and advancing structural reforms to support smart, sustainable and inclusive growth, promote competitiveness and to correct macroeconomic imbalances; RECALLS that public acceptance of budgetary consolidation and major structural reforms is key to successful implementation; therefore when designing reforms, equity considerations and distributional effects should be taken into account.

4. UNDERLINES that the horizontal macroeconomic and fiscal guidance provided in 2011 remains overall valid; and AGREES that strong emphasis in 2012 should be put on implementation of earlier guidance and on concrete measures addressing country-specific recommendations.
5. In line with the integrated surveillance framework the Europe 2020 strategy and the Integrated Guidelines, URGES Member States to present a comprehensive response with concrete, detailed and ambitious measures to fiscal, macroeconomic and structural challenges, taking into account national starting positions, in their Stability or Convergence Programmes and National Reform Programmes for the period 2012/2013, to be submitted preferably by mid-April and no later than 30 April;; and ENCOURAGES the Commission to propose ambitious country-specific recommendations on this basis, building on and refining recommendations delivered in 2011, as appropriate.
6. STRESSES the particular need for an ambitious and convincing policy response to the crisis in the Euro area; NOTES the voluntary commitments made by Euro area and non-euro area Member States under the "Euro Plus Pact"; CALLS ON these Member States to pursue these commitments with determination; and LOOKS FORWARD to a detailed assessment of the implementation of the commitments made helping participating Member States to focus political attention on the most important remaining reform areas going forward.
7. Further, WELCOMES the entering into force of the new legislative package strengthening EU economic governance and policy coordination, the so-called "six-pack", in December 2011; COMMITS to its timely and effective implementation in the coming round of the European Semester and beyond; TAKES NOTE of the Commission's new proposals for further strengthening of euro area surveillance and commits to examine and approve them swiftly; and TAKES NOTE of the Commission first Alert Mechanism Report, which marks the starting point for the new Macroeconomic Imbalances Procedure and further discussions on appropriate policy responses.

II FISCAL AND MACROECONOMIC POLICY ORIENTATIONS

Pursuing differentiated growth-friendly fiscal consolidation

8. NOTES that fiscal consolidation and putting the debt-to-GDP ratio on a downward path are essential to restoring macro-financial stability as a basis for growth and to securing the future of the European social model. In the current situation of fragile market confidence, ensuring fiscal sustainability is the key element underpinning economic stabilisation.
9. RECOGNISES the efforts made and STRESSES the need to fully and strictly implement the commitments made to ensure fiscal consolidation.
10. REAFFIRMS that all Member States should continue to respect their commitments according to the rules of the Stability and Growth Pact, which allow the automatic stabilisers to work around the agreed path of structural fiscal adjustment, while ensuring the long term sustainability of public finances; At the same time, REITERATES that Member States' specificities, including in particular existing fiscal and macro-financial risks, need to be taken into account in the design of their fiscal policies. Given their particular situation, Member States benefiting from a financial assistance programme should stick to the targets as agreed in the programme and should fully and timely implement the policy measures, including in particular structural reforms, agreed in the respective Memorandum of Understanding. Similarly, Member States facing close market scrutiny should continue to meet the agreed budgetary targets and stand ready to pursue further consolidation measures if needed.
11. REITERATES that all Member States should keep the growth of expenditure net of discretionary revenue measures below the medium-term rate of potential GDP growth until they have reached their MTO, while prioritising sustainable growth-friendly expenditure, promoting efficiency of public spending and pursuing the reform and modernisation of pension systems.

12. To this end, EMPHASISES, that particular attention needs to be paid to reinforcing the coverage and effectiveness of employment services and active labour market policies. While accounting for adequacy considerations and respecting national traditions of social dialogue, it will be important to reform and modernise pension schemes to ensure financial sustainability, including through increasing the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy, restricting access to early retirement schemes, supporting longer working lives and harmonising pension ages of men and women. While public pensions will continue to play an important role, complementary private savings to enhance retirement incomes should be encouraged where appropriate, while ensuring effective supervision of private pension funds. It will also be important to reform health systems, aiming at cost-efficiency and sustainability while maintaining high quality of these systems.
13. While recognising that taxation issues are a Member State competence, UNDERLINES that the design and structure of tax systems can importantly contribute to enhance macroeconomic performance, and that expenditure-based fiscal consolidation can be supported by appropriate revenue policies; INVITES Member States to review, where appropriate, their tax systems with the objective to make them more effective and efficient, including by reducing distortions; removing unjustified exemptions, tax expenditures and subsidies; shifting taxes away from labour towards areas less detrimental to growth, improving the efficiency of tax collection and tackling tax evasion, and to broadening the tax base; and NOTES the role tax policy can play in tackling climate change.
14. STRESSES the role of credible fiscal frameworks for improving the budgetary process and budgetary outcomes at national level, for ensuring effective surveillance and for strengthening long-term fiscal sustainability. To this end, Member States should ensure a timely and effective transposition of the new Directive on requirements for budgetary frameworks of Member States and press ahead with appropriate reforms in this area going beyond these minimum requirements. Such reforms should *inter alia* be aimed at improving the predictability and follow-up of budget planning and execution, via multi-annual domestic budgetary frameworks, clear national fiscal rules and effective fiscal councils.

Restoring normal lending to the economy

15. SUPPORTS the priority given by the Commission to restoring investor confidence in EU banking sector and to ensuring the flow of credit to the real economy. This will involve a strengthening of banks' capital positions and, where required, measures to support bank access to funding. To this end, the Council on 22 October put forward its consensus proposal of measures for restoring confidence in the banking sector, endorsed by Heads of State and Government on 26 October. These measures are in the process of being implemented and the Council RECALLS the one-off character of the recapitalisation exercise to strengthen the resilience of EU systemic banks to the impact of the sovereign crisis; its determination to bring the banking package forward in all its aspects, including in respect of the necessary firewalls, as well as its resolve to support measures to ensure access to funding and safeguarding a normal lending to the economy. The Council intends to MONITOR developments closely in coming months, in close cooperation with supervisors and Commission.
16. UNDERSCORES furthermore the importance of enhancing access to credit for SMEs beyond the banking sector, including by working with the European Investment Bank and by developing synergies between instruments available at the EU level, including on the basis of the initiatives, both legislative and non-legislative, promoted by the Commission in its December 2011 Action Plan.
17. RECALLS the G20 commitments it has taken in respect of the new regulatory framework, the delivery on commitments of which will need to be ensured in coming months whilst avoiding that the cumulative changes to the regulatory framework unduly overburden the EU financial sector.

Promoting growth and competitiveness

18. RECALLS that in the current economic circumstances it is crucial to complement fiscal consolidation and financial repair with well designed structural reforms aimed at promoting sustainable growth, competitiveness and efficient use of resources, and contributing to the correction of macroeconomic imbalances; EMPHASISES that growth-enhancing structural reforms must come to the forefront of the policy agenda in all Member States; and UNDERLINES that reforms with short term growth benefits consistent with fiscal consolidation strategies should be pursued with priority. In this context, efforts should be continued to further improve the regulatory framework, removing red tape and enhancing the knowledgebase of the economy. Reforms that increase the flexibility of product markets have the potential to unleash positive growth effects in the short and medium term and should be pursued.
19. EMPHASISES that Member States should deliver the full potential of the Single Market, including by removing all obstacles to the smooth functioning of internal market for services. In particular, EU legislation in areas such as services and the energy single market must be rapidly and fully implemented; RECALLS the statement of the European Council on 30 January 2012 that the Council will assess progress made in the implementation of Single Market legislation on the basis of the Commission Internal Market Scoreboard; and NOTES the invitation to the Commission to report annually on progress made towards releasing the growth-creating potential of a fully integrated Single Market, including as regards network industries. The Commission will report in June on possible means to enhance the implementation of Single Market legislation and improve its enforcement.

20. EMPHASISES that Member States should prioritise reforms promoting productivity growth considering its impact on output growth and adjustment capacity. Inside the euro area this is crucial to ensure the smooth functioning of the monetary union. To promote competitiveness, reforms need to focus on labour markets, in particular wage setting mechanisms to ensure efficient adjustment of labour costs, while respecting the role of social partners and national systems for wage formation, as well as while paying due attention to catching-up processes. Adequate wage-setting mechanisms also contribute to reducing unemployment by promoting labour mobility and facilitating the reallocation of labour across and within sectors, notably from the sheltered to the tradable sector, as well as geographically. Reforms of tax-benefit systems aimed at boosting job creation and of excessively rigid employment protection legislation aimed at facilitating access to the labour market, in particular of young people, and reducing segmentation can also support adjustment.

III MOBILISING EU LEVEL GROWTH DRIVERS

21. 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.

22. STRESSES that EU level action can usefully support and complement actions at the national level and therefore 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; ENCOURAGES the fast-tracking of the key 12 actions of the Single Market Act giving utmost priority to those that could provide a immediate boost to growth; and SUPPORTS the work of the Commission aimed at promoting smart EU regulation, and reducing administrative burden and red tape.

23. The Council RECALLS that the Services Directive should be implemented fully and unjustified restrictions and barriers on business-to-business services, professional services, regulated professions, the retail industry and social sectors should be removed; and SUPPORTS the conduct of sectoral performance test and the identification of follow-up measures with a view to achieve a real internal market for services.

24. UNDERLINES that the EU budget should, through appropriate prioritisation and within agreed ceilings, focus on smart, sustainable and inclusive growth, jobs and competitiveness. The EU Structural Funds should in Member States be used more effectively and efficiently to support the new growth and jobs focus. EU instruments should also contribute to improve the efficient use of resources in the context of advancing the green economy.
25. RECALLS the need of 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. International regulatory dialogue on norms, standards and intellectual property rights must be promoted.
