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Recommendation for aCOUNCIL RECOMMENDATION

on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro

{SWD(2012) 301 final}

Recommendation for a

COUNCIL RECOMMENDATION

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 136 in combination with Article 121(2) thereof,

Having regard to the recommendation of the European Commission[1],

Having regard to the resolutions of the European Parliament[2]

Having regard to the conclusions of the European Council,

After consulting the Economic and Financial Committee,

Whereas:

(1) Since its creation, the Eurogroup has played a pivotal role and has a special responsibility in the economic governance of the euro area. The economic crisis clearly exposed the close interrelations in the euro area, underscoring the need for a coherent aggregate policy stance which reflects the strong spillovers between countries whose currency is the euro, for effective arrangements for policy coordination to swiftly respond to changes in the economic environment.

(2) The Council has issued country-specific recommendations to each of the Member States whose currency is the euro. These recommendations address economic challenges at the national level and at the same time are a central element in determining stability and growth in the euro area as a whole. The Member States whose currency is the euro have also committed themselves to a set of far-reaching additional policy reforms under the Euro Plus Pact, aiming to foster competitiveness, promote employment, contribute to the sustainability of public finances and reinforce financial stability. On 2 March 2012, the Member States whose currency is the euro and eight other Member States signed a Treaty on Stability, Coordination and Governance in the Economic and Monetary Union in which they agreed to ensure that all major economic policy reforms that they plan to undertake will be discussed ex-ante and, where appropriate, coordinated among themselves. Ex ante coordination in the euro area context, both via the submission of draft budget plans and the discussion

[1] COM(2012)301
[2] P7_TA(2012)0048 and P7_TA(2012)0047

of major economic policy reform plans, will contribute to taking into account the spillover effects from national actions on the euro area as a whole.

(3) The existence of well-designed budgetary frameworks strengthening domestic fiscal governance is a key element in the sound management of public finances, and contributes to the sustainability of public finances in the euro area as a whole. Euro area Heads of State or Government committed in July and October 2011 to introduce national fiscal frameworks as foreseen in the Directive on national budgetary frameworks already by the end of 2012 ahead of the timetable foreseen in the Directive, and to go beyond the requirements contained therein. Moreover, on 2 March 2012, the euro area Member States, together with eight non-euro area Member States, by signing the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, committed themselves to a further strengthening of their national fiscal governance, notably by introducing binding rules for the budgetary position of the government to reach the medium-term objective.

(4) The pursuit of fiscal consolidation is a central element in the strategy to overcome the crisis in the euro area. The EU fiscal framework allows for differentiation in the pace of consolidation between Member States according to their fiscal space and macroeconomic conditions. The focus of the Stability and Growth Pact and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union is on structural balances and hence it allows taking into account the effects of the cycle and of one-off measures on headline budget balances. The assessment of effective action in response to Council recommendations on the correction of the excessive deficit positions is carried out in structural terms. An appropriate composition of consolidation is crucial to enhance confidence in the permanent nature of consolidation in the euro area and to limit its negative short-term impact on growth. Growth-friendly expenditure, in particular investment expenditure, needs to be prioritised; in several euro area Member States productive investment projects could be identified where both the private and the social returns would exceed the currently low interest rates. Reforms of long-term entitlements, notably health, are urgently needed, to underpin the long-term sustainability of public finances. Appropriate tax policy, such as shifting the tax burden away from labour, broadening the tax bases and more effective action to combat tax evasion could contribute to consolidation while increasing competitiveness and creating better conditions for growth.

(5) Stability and the good functioning of the financial system are pre-conditions for averting a "lost-decade scenario" of slow growth in the euro area and for enhancing investors' confidence. As further deleveraging of bank balance sheets is necessary, it is important to ensure that it proceeds in an orderly manner and is consistent with maintaining an adequate flow of credit to the real economy. In order to counter the emerging trend of financial fragmentation, further progress is necessary with integration in supervisory structures and practices as well as in cross-border crisis management.

(6) An orderly unwinding of intra-euro area macroeconomic imbalances is crucial for sustainable growth and stability in the euro area. A process of reduction in the imbalances has started, but needs to be pursued steadfastly. The urgency of actions to correct the imbalances is greater in deficit countries, where reforms are necessary to improve competitiveness and facilitate resources reallocation towards tradable sectors. At the same time, surplus countries can contribute to rebalancing by removing

unnecessary regulatory and other constraints on domestic demand, non-tradable activities and on investment opportunities.

(7) Recognising the interdependence between the economies of those Member States whose currency is the euro and the benefits that stability in this monetary union can bring to its members and the wider EU is a prerequisite for the further development of economic union. Looking ahead the Member States whose currency is the euro will need to deepen their integration to attain full economic and monetary union[3].

HEREBY RECOMMENDS that Member States whose currency is the euro should take action, individually and collectively, without prejudice to the competences of the Council as regards the coordination of economic policies of the Member States, but in particular in the context of economic policy coordination in the framework of the Eurogroup, within the period 2012-2013 to:

(1) Strengthen the working methods of the Eurogroup to allow it to take responsibility for the aggregate policy stance in the euro area, rapidly responding to changes in the economic environment, and to lead the coordination of economic policy in the context of the strengthened surveillance framework which applies to the Member States whose currency is the euro.

(2) Engage in genuine policy cooperation in the Eurogroup by sharing information and discussing draft budgets and the plans of major reforms with potential spillover effects on the euro area. Ensure that such reforms are undertaken that are necessary for a stable and robust euro area, including the implementation of the recommendations which the Council has addressed to individual Member States whose currency is the euro and which, in addition to addressing challenges at national level, have an impact on the euro area as a whole.

(3) Strengthen fiscal discipline and fiscal institutions at both national and sub-national levels, leading to enhanced market confidence in the medium- and long-term sustainability of public finances in the euro area. Following the agreement by the euro area Heads of State or Government in July and October 2011 and on 2 March 2012, advance the transposition of the Directive on national budgetary frameworks to the end of 2012 and strengthen fiscal governance further, notably by introducing in the national legislation of all euro area Member States the rules for balanced budget in structural terms and the automatic correction mechanisms.

(4) Ensure a coherent aggregate fiscal stance in the euro area by pursuing fiscal consolidation as set out in Council recommendations and decisions, in line with the rules of the Stability and Growth Pact, which account for country-specific macro-financial situation. Member States affected by significant and potentially rising risk premia should limit deviations from the nominal balance targets even against worse-than-expected macroeconomic conditions; other Member States should let the automatic stabilizers play along the adjustment path assessed in structural terms and stand ready to review the pace of consolidation should macroeconomic conditions deteriorate further. Composition of government expenditure and revenues should reflect the growth impact of spending items and revenue sources. In particular, all the

[3] See section 2.1 of COM (2012) 299

available budgetary margins should be used to foster public investment in the euro area, including by taking into account cross-country differences in the cost of funding.

(5) Take action to improve the functioning and stability of the financial system in the euro area. Accelerate the steps towards a more integrated financial architecture, comprising banking supervision and cross-border crisis resolution.

(6) Implement structural reforms, which – together with the differentiated fiscal stance – would promote an orderly unwinding of intra-euro area macroeconomic imbalances, including action at national level which reflects the country-specific situation and takes account of the Council recommendations to individual euro area Member States.

Done at Brussels,

For the Council
The President